

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
NOVEMBER 14, 2012
APPLICATION SUMMARY**

NAME OF PROJECT: Shallowford Healthcare, LLC

PROJECT NUMBER: CN1206-028

ADDRESS: 7429 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

LEGAL OWNER: Byron DeFoor
7201 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

OPERATING ENTITY: Grace Healthcare, LLC
7201 Shallowford Road, Suite 200
Chattanooga, (Hamilton County), Tennessee 37421

CONTACT PERSON: E. Graham Baker, Jr.
(615) 370-3380

DATE FILED: June 14, 2012

PROJECT COST: \$4,631,397.25

FINANCING: Cash Reserves

REASON FOR FILING: The establishment of a 30 bed skilled nursing home, in which all beds will be dually certified for Medicare and Medicaid. *The 30 nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2011 to June 2012 state fiscal year period.*

DESCRIPTION:

Shallowford Healthcare, LLC is seeking approval to establish a 30 bed skilled nursing facility in which all beds will be dually certified for Medicare and Medicaid at 7429 Shallowford Road Street, Chattanooga (Hamilton County). These beds are being requested from the 2011-2012 125 bed nursing home bed pool.

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SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

NURSING HOME SERVICES

A. Need

1. According to TCA 68-11-108, the need for nursing home beds shall be determined by applying the following population-based statistical methodology:

$$\begin{aligned}\text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus}\end{aligned}$$

*****This bed need formula contained in Tennessee's Health Guidelines for Growth, Criteria and Standards for Certificate of Need, 2000 Edition was developed before the passage of The Long-term Care Community Choices Act of 2008. See page 7 of this staff summary for more detail.*

2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.

Based on the projected population for Hamilton County in 2014, the Tennessee Department of Health's Division of Health Statistics used the above formula to calculate a need of 2,544 nursing home beds for the applicant's declared service area, Hamilton County.

3. The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.

According to the Tennessee Department of Health's Division of Health Statistics, there currently are 1,659 licensed beds in the Hamilton County. Additionally there are 150 outstanding but implemented nursing home beds totaling to 1,809 beds. Subtracting the 1809 licensed and outstanding beds from 2,544 bed need results in a net nursing home bed need of 735 beds.

It appears the application meets this criterion.

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4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.

The applicant's proposed project will be located in Chattanooga, the population center of Hamilton County.

It appears the application meets this criterion.

5. The HSDA may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

Since the Net Nursing Home Bed Need for Hamilton County is 735, the applicant's request for thirty beds is not in excess of the nursing home bed need standard for the service area.

It appears this criterion does not apply to the proposed project.

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

As in 3.a., this criterion does not apply to the proposed project.

B. Occupancy and Size Standards:

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

The applicant projects that nursing home's occupancy rate for 30 beds will be 76.0% in Year One increasing to 96.7% in Year Two.

It appears the application is expected to meet this criterion.

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2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently noncomplying with quality assurance regulations shall be considered in determining the service areas, average occupancy rate.

In 2010, Hamilton County had 10 licensed nursing homes which had a licensed capacity of 50 beds or more. None of these facilities has attained an occupancy of 95%. Provisional data from the 2011 JAR also indicates that none of the ten nursing homes attained 95% occupancy.

It appears the application does not meet this criterion.

3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for the previous year.

This application is for a new 30 bed skilled nursing facility. This criterion does not apply.

4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The HSDA may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.

This application is for a new free-standing 30 bed skilled nursing facility.

The application meets this criterion.

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SUMMARY:

The applicant proposes to renovate an existing facility, owned and operated by the owner of the applicant that currently provides residential and non-residential mental health and alcohol and drug detoxification and rehabilitation treatment services. The applicant states that the facility was originally built as a 60-bed assisted living facility. The applicant states that no residential patient will be forced to leave the facility before the end of their respective scheduled treatment plans. Placement assistance will be provided to any patient or client who needs it.

The applicant was recently asked to explain why the alternative of converting a mental health residential treatment facility to a nursing home was selected. The applicant's response by email is as follows:

Focus of Tennessee operates with 48 licensed beds. The average annual occupancy has ranged from 31.3% in 2010 to 39.6% in 2012, which shows that the facility has been underutilized. Further, a significant number of patients are from outside the immediate southeast Tennessee area, including other states. Therefore, the facility owner believes more area residents will be served in a skilled nursing center than in a mental health/chemical dependency facility.

In addition to inadequate local demand for mental health services, skilled nursing services are the core business of the applicant as evidenced by its investment in and management of approximately 50 nursing and senior care facilities. The owner's present involvement with mental health treatment centers is very limited, with only 3 in-patient locations. Consequently, converting the Shallowford Road location to a skilled nursing facility better aligns the facility with the owner's other business interest.

The applicant has filed a second CON application, CN1207-032, for a thirty (30) bed nursing home requesting the beds from the 2012-2013 125 Nursing Home Bed Pool. The applicant's intent is to obtain approval for both applications so that the result will be the establishment of one 60 bed nursing home.

The applicant states that the nursing home will be a one floor facility containing approximately 38,000 gross square feet. According to the floor plan in the application the nursing home will consist of two 19 room/30 bed wings with a central core that will include dining activity, therapy gym, beauty/barber shop, kitchen, multi-purpose room, and administrative offices. Each 30 bed wing will have 8 private rooms and 11 semi-private rooms. The applicant did state in a

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supplemental response willingness to consider operating a 30 bed nursing home in one half of the facility if one of the two applications was denied.

As noted earlier the 30 beds are being requested from the 2011-2012 125 bed nursing home bed pool. There are currently 54 beds available from this bed pool. According to the Department of Health Report there will be a nursing home bed need in 2014 of 2,544 beds, based on the 2000 Guidelines for Growth, Criteria and Standards for Nursing Homes. According to the Department of Health, Health Care Facilities, there are currently 1,659 licensed nursing home beds in Hamilton County. There are also 150 nursing home beds in outstanding CONs approved but yet unimplemented resulting in a total of 1,809 nursing home beds. Subtracting 1,809 existing nursing home beds from a projected bed need of 2,544 nursing home beds results in a net nursing home bed need of 735.

The 2000 Guidelines for Growth Occupancy and Size Standards for nursing homes also include a standard which states that "There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95%". Ten of the eleven nursing homes in Hamilton County have licensed beds in excess of 50. In 2010 and 2011, none of the ten nursing homes operated at an occupancy of 95% or greater. Four of the ten facilities operated between 90% and 95% occupancy in 2010. According to provisional data in the 2011 Joint Annual Reports for Nursing Homes one nursing home operated above 90% occupancy.

Shallowford Healthcare, LLC is a limited liability company, which is wholly owned by Byron DeFoor. The facility will be managed by Grace Healthcare, LLC, which is a limited liability company 98% owned by Byron DeFoor and 2% owned by Sunland Associates, LLC. The management fee expected to be charged by Grace Healthcare is 2.5% of net project income. The applicant states that Grace Healthcare, LLC currently manages 38 nursing homes with 20 of those being in Tennessee.

In addition to the numerical bed need the applicant states that:

- The proposed facility will be located in a high growth corridor in the eastern portion of Hamilton County. The applicant noted that there are several senior housing projects within a few miles of the applicant's site and that Life Care Center chose this section of the county to locate a 120 bed replacement facility. The applicant also states that nursing homes in this section of the county seem to have higher average occupancy rates than those facilities in other sections of the county.

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- The applicant also point out that during the last eight years there have been 1,000 nursing home beds available with 586 being approved, 138 being denied and 122 beds withdrawn. The applicant believes this is a clear indication that facilities are applying for beds only when it is felt the beds are needed, not just because the beds are available. The applicant states that this is the case with this particular application.

The Long-term Care Community Choices Act of 2008, TCA 71-5-1407 developed level of care criteria for new nursing facility admissions which ensure that the most intensive level of long-term care services is provided to persons with the highest level of need and for persons who meet a lesser level of care, i.e., who do not meet new nursing facility level-of-care criteria, but are "at risk" of institutional care, qualify for a more moderate package of Medicaid-reimbursed home and community-based waiver services up to a specified enrollment cap. The two components of level of care eligibility are medical necessity of care and need for inpatient care. As of July 1, 2012 TennCare instituted a new policy changing the requirements of being medically eligible for NF (non-skilled) nursing services by changing what was a requirement of having only one deficiency in activities of daily living (ADL) to be medically eligible to a weighted system that measures the level of deficiency across a defined group of ADLs.

The applicant was asked to discuss in a supplemental request for information the impact the CHOICES Act will have on nursing home utilization especially since data in the Joint Annual Reports indicate a steady decline in patient days since 2008. The applicant believes the CHOICES program will have more of an impact on NF (non-skilled) care which will delay individuals to enter nursing homes and be in need of skilled care at the time of admission. The applicant's full response can be found in Supplemental 4.

An email from a TennCare representative to Melanie Hill refutes the increased need for skilled care by stating*"while it is likely that the acuity of Medicaid residents will increase over time, this does not equate to the need for more skilled beds, since by definition, a facility must be certified and willing to serve all Medicaid residents, regardless of their level of reimbursement.*

In fact, we know that not only has utilization of NF services under CHOICES declined, but authorization of persons for Level 2 reimbursement has also declined significantly, as improved monitoring and oversight by MCOs have helped us to better ensure when skilled and/or rehabilitative services are needed, such that the higher level of reimbursement is approved."

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The applicant's proposed service area is Hamilton County. According to the Division of Health Statistics, Tennessee Department of Health (TDOH), the population of Hamilton County is expected to increase by 0.7% from 318,632 residents in 2012 to 320,713 residents in 2014. The Hamilton County population cohort of age 65 and older presently accounts for approximately 15.6% of the total population compared to a state-wide average of 13.8% in CY 2012. The age 65 and older cohort of Hamilton County is expected to grow 5.8% by 2014, as compared to the statewide 6.1% growth rate over the two year period, 2012-2014.

The following tables will illustrate the historical utilization trends of nursing homes in Hamilton County:

Hamilton County Nursing Home Utilization Trends, 2009-2011

Nursing Home	2012 Lic.'d Beds	2009 Patient Days	2010 Patient Days	2011 Patient Days	'09- '11 % Change	2009 % Occ.	2010 % Occ.	2011 % Occ.
Alexian Village	114	36,047	36,546	37,307	+3.5%	86.6%	87.8%	89.7%
Consulate	127	42,227	43,626	43,626	+3.3%	91.1%	94.8%	94.1%
Life Care- Chattanooga(1)	NA	27,841	NA	NA	NA	49.9%	NA	NA
Life Care- Collegedale	124	42,588	42,374	34,289	-19.5%	94.1%	93.6%	75.8%
Life Care-East Ridge(3)	130	40,621	41,710	36,790	-9.4%	69.6%	71.4%	77.5%
Life Care- Hixson(2)	108	25,399	22,082	21,615	-14.9%	89.2%	77.6%	54.8%
Life Care-Red Bank	148	50,454	50,083	47,021	-6.8%	93.4%	94.0%	87.0%
NHC	207	69,385	67,963	65,723	-5.3%	91.8%	90.0%	87.0%
Siskin Subacute	29	8,839	9,238	9,189	+4.0%	83.5%	87.3%	86.8%
Soddy Daisy	120	42,241	37,130	36,761	-13.0%	96.4%	84.8%	83.9%
St. Barnabas	108	33,643	34,791	35,137	+4.4%	85.3%	88.3%	89.1%
Standifer Place(4)	444	143,319	146,871	147,242	+2.7%	82.8%	84.9%	85.1%
TOTAL	1659	562,604	532,414	514,700	-8.5%	83.7%	86.4%	83.5%

- (1) Life Care of Chattanooga was a 153 bed facility that closed in 2009. It will be replaced by outstanding CON CN1103-009, Life Care-Ooltewah, a 120 bed facility
- (2) Life Care-Hixson is a 108 bed replacement/relocation (CN806-038 and CN0904-016) of 78 bed Life Care Missionary Ridge
- (3) Reduced licensed beds from 160 to 130 in conjunction with adding 30 beds at Life Care-Hixson
- (4) Licensed for 474 beds prior to 2012.

Source: Joint Annual Reports, 209-2011, 2011 Provisional

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The table above illustrates that nursing home utilization in Hamilton County has been declining. Total patient days of nursing home services provided in 2009 was 562,604 which have declined 8.5% to 514,700 patient days in 2011. Of the eleven nursing homes currently in operation in Hamilton County, five experienced increases in utilization while the other six experienced some decline in utilization. Overall occupancy increased in 2010 mainly due to 153 beds going into inactive status. Occupancy in 2011 returned to 2009 levels of approximately 84%. Licensed nursing home beds available in 2009 were 1,842. Nursing home beds in 2011 reduced to 1,689. In 2012 nursing home beds are at 1,659; however there are 150 approved but yet to be implemented beds in Hamilton County.

As reported by the Department of Health Report and review of the Nursing Home Joint Annual Report, the Hamilton County nursing homes in 2010, had 303 Medicare certified beds and 1,154 dually certified beds for a total of 1,457 beds available to receive skilled nursing patients. The Hamilton County average daily census (ADC) for SNF Medicare patients was 315 patients. ADC for Skilled-Medicaid patients was 139, the ADC for Skilled Care patients being paid for by all other payors was 96. The total ADC for skilled nursing patients was 550. Of the 1457 Medicare skilled beds in Hamilton County, these beds were used approximately 38% of the time for skilled patients. The ADC for NF (non-skilled which includes Medicaid and non-certified) is 915 patients. Thus, the total ADC for the county's 1,689 nursing home beds was 1,465 patients.

The applicant initially reported 100% skilled utilization for the proposed project and would enter a transfer agreement for Medicaid patients requiring a lower level of care. In a request for supplemental information the applicant was informed that due to the Linton Court Order, a facility dually certified for Medicare/TennCare would be expected to provide services to TennCare patients requiring less than skilled nursing services. As noted on page 3 of the Department of Health report the Linton Court Order resulted in District Court instructing the State of Tennessee to submit a remedial plan that included a provision requiring Medicaid providers to certify all available licensed nursing home beds within their facilities and to admit residents on a first-come, first-serve basis regardless of their level of care. In fact in the same email from a TennCare representative to Melanie Hill noted on page 7 of this staff summary, the TennCare representative stated: *It is not the Linton Order, but rather Nursing Home Reform Law (OBRA 87) which eliminated the distinction between Intermediate and Skilled Care. Under the law, a facility is not permitted to accept only persons receiving Level 1 or Level 2 reimbursement; rather, a facility must be qualified and willing to meet the medical needs of all Medicaid residents to participate in the Medicaid program.*

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After several supplemental responses the applicant provided two scenarios: one where the applicant would serve both Medicare and Medicaid patients and one where the applicant would serve only Medicare skilled patients. The two scenarios are provided in the charts below:

Scenario 1: Includes Medicaid non-skilled utilization

Year	Licensed Beds	*Medicare certified Beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Year 1	30	30	9.3	2.3	2.0	9.2	22.8	80.0%
Year 2	30	30	12.0	3.0	2.0	12.0	29.0	96.7%

*Includes dually-certified beds

Scenario 2: Only Medicare Skilled Utilization

Year	Licensed Beds	Medicare certified Beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Year 1	30	30	18.6	0.0	2.0	0.0	20.6	68.7%
Year 2	30	30	26.0	0.0	2.0	0.0	28.0	93.4%

According to the charts above if the applicant remains dually certified for Medicare and Medicaid, the applicant projects that by the second year of operation the skilled average daily census for a 30-bed facility will be 17 while the non-skilled ADC will be 12. This results in an overall occupancy of 96.7%. If the applicant becomes only Medicare certified the applicant projects that by the second year of operation the skilled average daily census will be 28. This will result in an overall occupancy of 93.4%

Per the Projected Data Chart in the sixth supplemental response assuming dual certification, gross operating revenue on an occupancy rate of 80.0% is \$3,224,106 (\$387.61 per patient day) in Year One of the project, increasing by approximately 30.7% to \$4,216,590 on an occupancy rate of 96.7% in Year Two. The applicant projects a net operating loss of (\$795,010.80) in project Year One, and a net operating loss of (\$480,991.10) in Year Two. The applicant indicates it will apply for both Medicare and TennCare/Medicaid certification. Participation in the Medicare program during the first year of operation is anticipated to be \$2,338,146 (72.5% of total gross operating revenues), while participation in Medicaid is estimated to be \$754,200 (23.4% of total gross operating revenues). If

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the applicant facility was only Medicare certified, a projected net loss of (\$809,459.50) is forecasted for Year 1 improving to positive net income of \$106,957 in Year 2.

The applicant expects to contract with UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

Direct care nursing staff for the 30 bed nursing home in the first year of the project's opening will consist of a total of 13.0 full-time equivalent (FTE) employees, including 2.0 FTE registered nurses, 3.0 FTE licensed practical nurses, and 8.0 FTE certified nursing assistants. The applicant will contract for physical, occupational and speech therapy according to census and rehabilitation needs. The applicant will hire social worker staff, activities director staff, and other related positions. The applicant has not identified or selected a medical director. If approved, the applicant expects to hire a medical director prior to the licensure survey.

The total estimated project cost is \$4,631,397.25. The major costs are the fair market value of the property, (\$4,000,000) and renovation costs of 235,000. Other costs include equipment costs, architectural and engineering fees, and administrative costs.

The president of Community Trust & Banking Company provides a letter and documentation that the applicant has the funds available to fund the proposed project.

Shallowford Healthcare, LLC is a new entity and has no historical financial statements to report.

The applicant has submitted the required corporate and property documentation. Staff will have a copy of these documents available for member reference at the Agency meeting. Copies are also available for review at the Health Services and Development Agency office.

Should the Agency vote to approve this project, the CON would expire in two years.

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CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, denied or outstanding Certificates of Need for this applicant.

Pending Applications

Shallowford Healthcare, LLC, CN1207-032, has a pending application scheduled to be heard at the November 14, 2012 Agency meeting for the establishment of a thirty (30) bed nursing home subject to the 2012-2013 Nursing Home Bed Pool. This is the second of two applications, both for thirty skilled beds –the first application, CN1206-028 subject to the 2011-2012 Nursing Home Bed Pool. The applicant plans to eventually operate a sixty (60) bed nursing home. Estimated project cost is **\$4,631,397**.

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no other Letters of Intent, denied applications, or pending applications for other health care organizations in the service area proposing this type of service.

Outstanding Certificates of Need

Alexian Village Health and Rehabilitation Center, CN1110-042, has an outstanding Certificate of Need that will expire on May 1, 2014. The CON was approved at the March 28, 2012 Agency meeting for the replacement of an existing one hundred fourteen (114) nursing home bed facility on the campus of Alexian Village at 622 Alexian Way Signal Mountain (Hamilton County). Estimated project cost is **\$22,658,154.00**. *Project Status: Site work continues with daily blasting. This should conclude in October, 2012. Grading has been delayed by rain but is on track for the month of October, 2012. Additional site work includes the relocation of utilities. Water and gas have been relocated and the electrical service will be relocated in October, 2012. Review of engineer drawing is complete, site work for drainage to begin at the end of October.*

Erlanger North Hospital, CN1012-056A, has an outstanding Certificate of Need that will expire on April 1, 2014. The CON was approved at the March 23, 2011 Agency meeting for the establishment of a nursing home and conversion of thirty (30) acute care beds to thirty (30) skilled nursing beds. The additional

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thirty (30) nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2010 to June 2011 state fiscal year period. Estimated project cost is **\$1,477,052.00**. *Project Status: Erlanger is proceeding with work associated with the implementation of CN1012-056. Replacement of the roof is completed and facility has received approval from the State Fire Marshal for installation/upgrade to the fire protection system. This work has also been bid and is ready to be awarded to contractor for installation. Facility also continues in discussion with an existing SNF provider about programmatic implementation and related operations of the skilled unit and expects to sign a Letter of Intent (LOI) with the provider in the next few weeks or less, while also anticipating discussion with HSDA in the near term. The proposed provider arrangement goes before the Erlanger Board Planning Committee on October 22, 2012. The facility expects to complete implementation of the CON within the time frame authorized.*

Chattanooga Medical Investors Limited Partnership, d/b/a Life Care Center of Ooltewah, CN1103-009A, has an outstanding Certificate of Need that will expire on September 1, 2013. The CON was approved at the July 27, 2011 Agency meeting for the relocation and replacement of a nursing home from 455 North Highland Park Ave., Chattanooga (Hamilton County), TN to a yet-to-be assigned address located on the northeast corner of Mountain View Road and Snow Hill Road, Ooltewah (Hamilton County), TN. The licensed beds will decrease from 153 to 120. Estimated project cost is **\$20,990,000**. *Project Status: Construction on Life Care Center of Ooltewah has progressed on schedule and within budget. The building should be substantially complete in early December 2012. Installation of the furniture, fixtures and equipment is scheduled to be complete by the end of December.*

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
10/29/2012

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LETTER OF INTENT

NURSING HOME BED POOL STATS

July 1, 2011 – June 30, 2012

125 BED POOL

NH BEDS APPROVED	68 NURSING HOME BEDS
NH BEDS PENDING	30 NURSING HOME BEDS
SWING BEDS APPROVED	0 SWING BEDS
SWING BEDS PENDING	0 SWING BEDS
TOTAL BEDS DENIED	24 BEDS
SUBTOTAL-- BEDS REQUESTED	122 BEDS
TOTAL BEDS AVAILABLE FROM POOL	57 BEDS
(TOTAL PENDING BEDS)	(54 BEDS)

<u>COUNTY</u>	<u>PROJECT NUMBER</u>	<u>FACILITY</u>	<u>PROJECT DISPOSITION</u>	<u>MEETING DATE</u>	<u>DESCRIPTION</u>
Knox	CN1111-049	NHC HealthCare, Farragut	APPROVED	2/22/2012	The addition of ten (10) Medicare SNF nursing home beds to the currently operating ninety (90) bed nursing home for a total of 100 nursing home beds.
Davidson	CN1202-010	McKendree Village	APPROVED	5/23/2012	The addition of thirty (30) Medicare skilled nursing home beds to the 150 nursing home beds it currently operates. If approved McKendree Village will operate a 180 bed nursing home that will be dually certified for Medicare and Medicaid participation.
Shelby	CN1202-011	Collins Chapel Health & Rehabilitation	APPROVED	6/27/2012	The establishment of a nursing home with twenty-eight (28) Medicare skilled nursing home beds. Collins Chapel Connectional Hospital is a non-profit religious corporation affiliated with and a ministry of the Christian Methodist Episcopal Church. It proposes to establish this nursing home to provide skilled nursing facility services.
Wilson	CN1204-016	The Pavilion-THS	DENIED	9/26/2012	To build an addition to the existing sixty (60) licensed bed nursing home; and add twenty-four (24) skilled nursing beds dually certified for Medicare and Medicaid. The expanded facility will have a total of eighty-four (84) licensed beds. The facility currently provides care for private-pay, Medicare Level II, and Medicaid Level I and II residents. There will be no change to the services currently provided.

NURSING HOME BED POOL STATS

Updated 10/2/2012

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Hamilton	CN1206-028	Shallowford Healthcare, LLC	PENDING	11/14/2012	The establishment of a thirty (30)* skilled bed nursing home (subject to the 2011-2012 Nursing Home Bed Pool). This is the first of two (2) applications, both for thirty (30)* skilled nursing home beds--the second application, CN1207-032 (subject to the 2012-2013 Nursing Home Bed Pool). The applicant plans to eventually operate a sixty (60) bed facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued.
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2012 JUN 7 PM 2 05

LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper
(Name of Newspaper)

of general circulation in Hamilton County, Tennessee, on or before June 10, 2012 for one day.
(County) (Month / day) (Year)

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, intends to file an application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,526,161.00, including filing fee.

The anticipated date of filing the application is: June 15, 2012.

The contact person for this project is E. Graham Baker, Jr.
(Contact Name)

Attorney
(Title)

who may be reached at: his office at
(Company Name)

2021 Richard Jones Road, Suite 350
(Address)

Nashville
(City)

TN
(State)

37215
(Zip Code)

615/370-3380
(Area Code / Phone Number)

E. Graham Baker, Jr.
(Signature)

06/07/2012
(Date)

graham@grahambaker.net
(E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

=====

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the

ORIGINAL APPLICATION



2012 JUN 14 PM 1 58

**CERTIFICATE OF NEED
APPLICATION**

For

ESTABLISHMENT OF A 30 SKILLED BED NURSING HOME

by

**SHALLOWFORD HEALTHCARE, LLC
7429 Shallowford Road
Chattanooga (Hamilton County), TN 37421**

**STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
500 Deaderick Street
Suite 850
Nashville, Tennessee 37243
615/741-2364**

FILING DATE: June 14, 2012

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency or Institution

Shallowford Healthcare, LLC

Name

2012 JUN 14 PM 1 58

7429 Shallowford Road, Suite 200

Street or Route

Hamilton

County

Chattanooga,

City

TN

State

37421

Zip Code

2. Contact Person Available for Responses to Questions

E. Graham Baker, Jr.

Name

Attorney

Title

Weeks and Anderson

Company Name

graham@grahambaker.net

e-mail address

2021 Richard Jones Road, Suite 350

Street or Route

Nashville,

City

TN

State

37215

Zip Code

Attorney

Association with Owner

615/370-3380

Phone Number

615/221-0080

Fax Number

3. Owner of the Facility, Agency, or Institution

Byron DeFoor

Name

(423) 308-1845

Phone Number

7201 Shallowford Road

Street or Route

Hamilton

County

Chattanooga

City

TN

State

37421

Zip Code

4. Type of Ownership of Control (Check One)

A. Sole Proprietorship

B. Partnership

C. Limited Partnership

D. Corporation (For-Profit)

E. Corporation (Not-for-Profit)

F. Governmental (State of Tenn.
or Political Subdivision)

G. Joint Venture

H. Limited Liability Company

I. Other (Specify)

X

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.4*.

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". *Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.*

Section A, Item 1: Facility Name must be applicant facility's name and address must be the site of the proposed project.

Response: Shallowford Healthcare, LLC ("Applicant"), 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421, owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 and to be managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home.

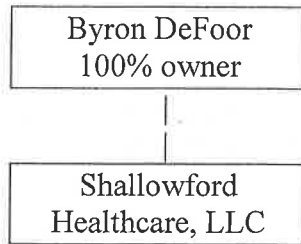
Section A, Item 3: Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

Response: The requested document for the Applicant is included in the application as *Attachment A.4*.

Section A, Item 4: Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

Response: Shallowford Healthcare, LLC ("Applicant"), 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421, owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 and to be managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home.

See the following organizational chart:



Section A, Item 5: *For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract*

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

Response: The facility will be managed by Grace Healthcare, LLC. See *Attachment A.5*, a draft management contract. Grace Healthcare, LLC is a very experienced and capable manager of nursing homes, and currently manages about 38 nursing homes, including the following 20 facilities in Tennessee:

Celina Health and Rehab Center	Celina
Four Oaks Healthcare Center	Jonesborough
Grace Healthcare of Clarksville	Clarksville
Grace Healthcare of Cordova	Cordova
Grace Healthcare of Franklin	Franklin
Grace Healthcare of Whites Creek	Whites Creek
Hancock Manor Nursing Home	Sneedville
Hermitage Health Center	Elizabethton
Beverly Park Nursing & Rehabilitation Center	Knoxville
Island Home Nursing & Rehab	Knoxville
West Hills Nursing & Rehabilitation Center	Knoxville
Hillview Health Center	Elizabethton
Laurelwood Health Care	Jackson
Maplewood Health Care	Jackson
Oneida Nursing & Rehab Center	Oneida
Raintree Manor	McMinnville
Soddy Daisy Healthcare Center	Soddy Daisy
Tri County Healthcare Center	Adamsville
Woodbury Health Center	Woodbury
Henderson Health and Rehabilitation Center	Henderson

Grace Healthcare, LLC is a Delaware limited liability corporation. Its current owners are Byron DeFoor (98%) and Sunland Associates, LLC (2%).

Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: Veranda Property Investment, LLC owns the property and will lease the property to Shallowford Healthcare, LLC. Veranda Property Investment, LLC and Shallowford Healthcare, LLC have common ownership. The site is approximately 3.92 acres. Please see *Attachment A.6*.

5. Name of Management/Operating Entity (If Applicable)

Grace Healthcare, LLC

Name

7201 Shallowford Road, Suite 200

Street or Route

Hamilton

County

Chattanooga

City

TN

State

37421

Zip Code

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See Attachment A.5.

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership

D. Option to Lease

B. Option to Purchase

E. Other (Specify)

C. Lease of 5 Years

X

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See Attachment A.6.

7. Type of Institution (Check as appropriate--more than one response may apply.)

A. Hospital

I. Nursing Home

X

B. Ambulatory Surgical

J. Outpatient Diagnostic Center

Treatment Center (Multi-Specialty)

K. Recuperation Center

C. ASTC

L. Rehabilitation Facility

D. Home Health Agency

M. Residential Hospice

E. Hospice

N. Non-Residential Methadone

F. Mental Health Hospital

Facility

G. Mental Health Residential

O. Birthing Center

Treatment Facility

P. Other Outpatient Facility

H. Mental Retardation Institutional

(Specify)

Habilitation Facility (ICF/MR)

Q. Other (Specify)

8. Purpose of Review (Check as appropriate--more than one response may apply.)

A. New Institution

X

H. Change In Bed Complement

B. Replacement/Existing Facility

(Please note the type of change

C. Modification/Existing Facility

by underlining the appropriate

D. Initiation of Health Care

response: Increase, Decrease

Service as defined in TCA §

68-11-1607(4)

Designation, Distribution,

Conversion, Relocation)

E. Specify

I. Change of Location

F. Discontinuance of OB Services

J. Other (Specify)

G. Acquisition of Equipment

9. Bed Complement Data

Please indicate current and proposed distribution and certification of facility beds.

Response: Establishment of new 30 skilled bed nursing home:

	Current Beds		Staffed	Beds	TOTAL
	Licensed	CON*	Beds	Proposed	Beds at Completion
A. Medical	_____	_____	_____	_____	_____
B. Surgical	_____	_____	_____	_____	_____
C. Long-Term Care Hospital	_____	_____	_____	_____	_____
D. Obstetrical	_____	_____	_____	_____	_____
E. ICU/CCU	_____	_____	_____	_____	_____
F. Neonatal	_____	_____	_____	_____	_____
G. Pediatric	_____	_____	_____	_____	_____
H. Adult Psychiatric	_____	_____	_____	_____	_____
I. Geriatric Psychiatric	_____	_____	_____	_____	_____
J. Child/Adolescent Psychiatric	_____	_____	_____	_____	_____
K. Rehabilitation	_____	_____	_____	_____	_____
L. Nursing Facility (non-Medicaid Certified)	_____	_____	_____	_____	_____
M. Nursing Facility Level 1 (Medicaid only)	_____	_____	_____	_____	_____
N. Nursing Facility Level 2 (Medicare only)	_____	_____	_____	_____	_____
O. Nursing Facility Level 2 (dually-certified)	_____	_____	_____	30	30
P. ICF/MR	_____	_____	_____	_____	_____
Q. Adult Chemical Dependency	_____	_____	_____	_____	_____
R. Child & Adolescent Chemical Dependency	_____	_____	_____	_____	_____
S. Swing Beds	_____	_____	_____	_____	_____
T. Mental Health Residential Treatment	_____	_____	_____	_____	_____
U. Residential Hospice	_____	_____	_____	_____	_____
TOTAL	_____	_____	_____	30	30

*CON Beds approved but not yet in service

Note: This application is for the addition of 30 skilled beds from the statutory "pool" of 125 beds authorized at T.C.A. §68-11-1622 for FY 2011-2012. While this application is statutorily for Medicare skilled beds, the Linton Rule prescribes that all additional beds must be certified for Medicaid patients, also. Therefore, the above chart indicates that the 30 requested beds will be dually-certified in order to comply with the Linton rule.

10. Medicare Provider Number will be applied for
Certification Type Nursing Home

11. Medicaid Provider Number will be applied for
Certification Type Nursing Home – Level II

12. If this is a new facility, will certification be sought for Medicare and/or Medicaid?

Response: This is a new facility, and certification will be sought for both Medicare and Medicaid. All beds will be skilled beds, and due to the Linton Rule, all beds will be dually-certified.

13. *Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? Yes If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract. Discuss any out-of-network relationships in place with MCOs/BHOs in the area.*

Response: We plan to contract with Americhoice and BCBS of TN. Through BCBS of TN, we will also serve TennCare Select patients.

Medicare HMO and insurance contracts will be negotiated on an as-needed basis, based on referrals received from local hospitals.

See *Attachment A.13* for a map of Tennessee showing the geographic areas for each MCO.

NOTE: *Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.*

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,631,397.25, including filing fee.

It is proposed that the Applicant will renovate an existing health care facility for this nursing home. The facility for this project is currently being utilized as a chemical dependency and eating disorder treatment facility. As the approximate 38,000 GSF single floor building, built in 1995, is already a health care facility, relatively little modification needs to be made in order to convert the facility into a nursing home. Eventually, the Applicant hopes to operate a 60 skilled bed nursing home at this site. The proposed service area is Hamilton County.

Plot Plan and proposed footprints are included as *Attachments B.III.A. and B.IV.*

As reported on Joint Annual Reports for existing county facilities, nursing homes in Hamilton County have operated 86.3%, 83.7%, and 86.5% for 2008 through 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 JARs. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July, 2011 for a replacement 120 bed nursing home. The Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility. Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120

replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The bed need is for 2,544 beds in Hamilton County by 2014. Therefore, there is a need for the additional beds requested in this application.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Funding for the project will be through cash reserves of the owner. This project is financially feasible, and compares very favorably to recent nursing home applications that have been filed with the HSDA. A chart prepared by the HSDA and provided later in this application indicates that the median construction cost per nursing home bed (new construction) in 2009 through 2011 was approximately \$167.31 per GSF, and total construction was approximately \$165.00 per GSF.

The total cost per bed of our project is approximately \$4,621,000 (total cost of \$121.61 per GSF) and only \$235,000 of renovation costs (construction cost of \$6.19 per GSF) – significantly lower than the average of the most recent applications heard by the HSDA. Construction (renovation) costs per bed approximate \$7,833.34 and total cost per bed approximates \$154,033.34. These costs are skewed high since all fixed costs had to be “loaded” in this first application. Since the second 30 bed application will be extremely inexpensive (basically, the cost of furnishings for 30 beds), the actual construction and total cost per bed is closer to almost half the numbers reported above, assuming all 60 beds are approved.

It is anticipated that payor mix will be as follows: Medicare, 77%; Medicaid, 15%; and Private Pay, 8%.

Nursing staffing is readily available, as approximately 26 nurses are required to staff a 60 bed facility, and this project is for only 30 beds. We do not anticipate any problems in securing nursing staff for this facility. Grace Healthcare, the management company, manages approximately 38 nursing homes, 20 in Tennessee, and its HR department keeps RN, LPN, CNAs, housekeeping and dietary positions open for application. In addition, Grace Healthcare has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

The site is in the eastern portion of Hamilton County, and is about one block from the Interstate 75 on- and off-ramps. Therefore, the site is readily accessible for families of its patients.

Due to the tremendous need for nursing home beds in Hamilton County, coupled with the fact that the addition of these beds will increase the existing nursing home bed capacity by only 1.6%, the approve of this project will have no negative impact on existing facilities.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

SUPPLEMENTAL

- A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

Response: Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,631,397.25, including filing fee.

It is proposed that the Applicant will renovate an existing health care facility for this nursing home. The facility for this project is currently being utilized as a chemical dependency and eating disorder treatment facility. As the approximate 38,000 GSF single floor building, built in 1995, is already a health care facility, relatively little modification needs to be made in order to convert the facility into a nursing home. Eventually, the Applicant hopes to operate a 60 skilled bed nursing home at this site. The proposed service area is Hamilton County.

This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction cost per GSF of approximately \$6.19. The total project would approximate \$121.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The plot plan and proposed footprint are included as *Attachments B.III.A. and B.IV*, respectively.

The footprint indicates that there will be 22 semi-private rooms and 16 private rooms. Indicators are marked on the footprint (*Attachment B.IV*).

For informational purposes, the Applicant plans to submit a second application for another 30 skilled beds. The second application will apply for 30 beds from the FY 2012-2013 statutory pool of beds. If both applications are approved, the Applicant will eventually operate a 60 skilled bed nursing home.

There is ample room in the existing building to accommodate 60 beds. As stated, there will be 22 semi-private rooms and 16 private rooms. Due to the fact that all fixed costs had to be included in this first application, reported costs per bed are almost double what will eventually occur, assuming both applications are approved. For example, the full FMV of the building and property (\$4,000,000) had to be included in this first application, as did the renovation costs for the entire facility (\$235,000), architectural and engineering fees (\$25,000), legal, administrative, consultant fees (\$35,000), and most of the moveable equipment (\$171,000). Assuming the first application is approved, the project costs for the second application will be minimal.

As Hamilton County has a shortfall of 735 nursing home beds, the approval of both projects (totaling 60 beds) would comply with the Guidelines for Growth.

See *Attachment B.II.A* for existing nursing home bed utilization (2008 – 2010).

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response: This first application is for 30 skilled beds that are subject to the “pool” of beds authorized for the FY 2011-2012. It is intended to file a second 30 skilled bed application that will be subject to the FY 2012-2013 “pool” of nursing home beds. The Applicant intends to eventually operate a 60 skilled bed nursing home. See *Attachment B.II.A* for an inventory of existing beds and historic utilization.

The nursing home bed utilization data supplied by the State indicates that there are currently 1,689 existing nursing home beds in Hamilton County (2010 JARs), and 120 replacement beds have been approved but not yet in service, with a total statistical need of 2,544 beds by 2014. This means that there is a need for 735 nursing home beds in the County. Approval of this application will help satisfy that need.

In addition, the Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State’s elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

*Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020,
Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.*

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,000 new beds have been authorized (8 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 24 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 52 of the pending beds are approved, there remain ample beds from the pool to approve this project.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion – THS – Wilson Co.)

Source: HSDA Website

This is a clear indication that facilities are applying for these beds only when it is felt the beds are needed – not just because the beds are available. Such is the case with this particular application.

To conclude, the approval of this project should not impact existing facilities in the County. First, the requested beds (30) would result in an increase of only 1.6% of the total beds in the County. Second, those facilities providing quality care would not be affected by such a small increase at our facility. Third, the overall bed need in Hamilton County is for 2,544 beds by 2014, and there are only 1,809 beds available (1,689 in existence plus another 120 beds approved but not yet in service). Fourth, by converting an existing health care facility, we are able to modify the physical plant for limited funds, making the transition to nursing home very feasible from a financial standpoint. And fifth, the site for the proposed nursing home is located in a high growth corridor of the county, and nursing homes located in this section of the county seem to have higher occupancy rates than the average of other nursing homes in Hamilton County.

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. Magnetic Resonance Imaging (MRI)
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

Response: N/A, as no new services will be provided.

D. Describe the need to change location or replace an existing facility.

Response: N/A.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

a. Describe the new equipment, including:

- 1. Total cost; (As defined by Agency Rule).**
- 2. Expected useful life;**
- 3. List of clinical applications to be provided; and**
- 4. Documentation of FDA approval.**

b. Provide current and proposed schedules of operations.

Response: N/A.

2. For mobile major medical equipment:

- a. List all sites that will be served;**
- b. Provide current and/or proposed schedule of operations;**
- c. Provide the lease or contract cost.**
- d. Provide the fair market value of the equipment; and**
- e. List the owner for the equipment.**

Response: N/A.

3. Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response: N/A.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:

1. Size of site (*in acres*)
2. Location of structure on the site; and
3. Location of the proposed construction.
4. Names of streets, roads or highway that cross or border the site.

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The total development site is approximately 3.92 Acres. Please see attached plot plan (*Attachment B.III.A*).
2. Please see *Attachment B.III.A*. This attachment indicates the location of the existing facility.
3. The location of the proposed nursing home is the same footprint of the existing facility shown on *Attachment B.III.A*.
4. The site of the nursing home is located about one block from the Interstate 75 in eastern Hamilton County, and is readily accessible to patients and their families. Shallowford Road is undergoing a widening project, and the relatively small impact on this site is noted on *Attachment B.III.A*. The Applicant will maintain its 328 feet of frontage on Shallowford Road.

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: The site of the nursing home is located about one block from the Interstate 75 in eastern Hamilton County, and is readily accessible to patients and their families. Public transportation is available.

IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.

NOTE: DO NOT SUBMIT BLUEPRINTS. Simple line drawings should be submitted and need not be drawn to scale.

Response: Please see *Attachment B.IV* for a footprint of the proposed facility. This facility can accommodate 22 semi-private rooms and 16 private rooms.

V. For a Home Health Agency or Hospice, identify:

- 1. Existing service area by County;**
- 2. Proposed service area by County;**
- 3. A parent or primary service provider;**
- 4. Existing branches; and**
- 5. Proposed branches.**

Response: N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), “no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care.” The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate “Not Applicable (NA).”

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee’s Health: Guidelines for Growth.
 - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response: Please see *Attachment Specific Criteria*, and *Attachment State Health Plan*.

- b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response: N/A.

2. **Describe the relationship of this project to the applicant facility's long-range development plans, if any.**

Response: This application is the first of two CON applications for 30 skilled beds, each. The Applicant eventually plans to operate a 60 bed nursing home at this site.

3. **Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

Response: Our primary service area is Hamilton County. With only 1,689 existing beds plus another 120 beds approved but not yet in service, the total capacity of Hamilton County is only 1,809 beds. The statistical need is for 2,544 beds in two years. There is a resulting shortfall of 735 beds needed.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

Therefore, the service area is reasonable.

Please see *Attachment C.Need.3* for a map of the service area.

4. A. Describe the demographics of the population to be served by this proposal.

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, several items of interest were selected from the U.S. Census Bureau Fact Sheets available on the internet for the chart below:

Percentage of Population, Years	Hamilton	TN
High School Graduate 2006-2010	85.4%	82.5%
Bachelor's Degree or Higher 2006-2010	27.0%	22.7%
Foreign Born 2006-2010	4.6%	4.4%

Source: U.S. Census Bureau, Fact Sheets

The Applicant does not and will not discriminate in any way, whether regarding admissions or in hiring practices, at the nursing home.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

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Bachelor's Degree or Higher 2006-2010	27.0%	22.7%
Foreign Born 2006-2010	4.6%	4.4%

Source: U.S. Census Bureau, Fact Sheets

The Applicant does not and will not discriminate in any way, whether regarding admissions or in hiring practices, at the nursing home.

Hamilton County has both Medically Underserved Areas (MUAs) and Health Professional Service Areas (HPSAs). See *Attachment C.Need.4.B* for lists of these areas. Approval of this application will help address such shortages by hiring more professional health care providers in the county.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: As reported on Joint Annual Reports for existing county facilities, nursing homes in Hamilton County have operated 86.3%, 83.7%, and 86.5% for 2008 through 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 JARs. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July, 2011 for a replacement 120 bed nursing home. The Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility. Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The bed need is for 2,544 beds in Hamilton County by 2014, resulting in a shortfall of 735 nursing home beds needed in the County. Therefore, there is a need for the additional beds requested in this application.

See *Attachment B.II.A* for a chart showing utilization of these nursing homes from 2008 – 2010.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,000 new beds have been authorized (8 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 24 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 52 of the pending beds are approved, there remain ample beds from the pool to approve this project.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion –THS – Wilson Co.)

Source: HSDA Website

This is a clear indication that facilities are applying for these beds only when it is felt the beds are needed – not just because the beds are available. Such is the case with this particular application.

To conclude, the approval of this project should not impact existing facilities in the County. First, the requested beds (30) would result in an increase of only 1.6% of the total beds in the County. Second, those facilities providing quality care would not be affected by such a small increase at our facility. Third, the overall bed need in Hamilton County is for 2,544 beds by 2014, and there are only 1,809 beds available (1,689 in existence plus another 120 beds approved but not yet in service). Fourth, by converting an existing health care facility, we are able to modify the physical plant for limited funds, making the transition to nursing home very feasible from a financial standpoint. And fifth, the site for the proposed nursing home is located in a high growth corridor of the county, and nursing homes located in this section of the county seem to have higher occupancy rates than the average of other nursing homes in Hamilton County.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: There is no historic utilization since this application is for a new facility.

Projected utilization is based on researching historic utilization of existing facilities in Hamilton County and those managed by the management company, plus drawing on the vast knowledge and experience of the management company. Grace Healthcare, LLC ("Grace") currently manages about 38 nursing homes, 20 of which are in Tennessee. As such, Grace is able to provide market analyses utilizing existing occupancy rates and projecting future utilization. Anecdotal information includes telephone calls and other non-documented information received by the Applicant's owner over the past several years, coupled with the fact that Hamilton County is woefully under-bedded and the proposed site is located in a high growth corridor of the County. Several senior housing units are located closed to the site, as is the site of the new VW plant. Also, as reported, the elderly population of Hamilton County is growing at about 10 times the rate of the growth of the general population. As baby boomers age, the need for more long term services in a county with a current need of an addition 735 beds is obvious.

The Applicant anticipates the following payor percentages at this skilled facility, based on its research:

Medicare	77%
Medicaid	15%
Private	8%

This projected mix would result in the following projections:

Applicant's Projected Payor Mix
(All are Level II patient days of care)

Payor	Year 1	Year 2
Medicare	6,168	7,870
Medicaid -- Level II	1,202	1,533
Private -- Level II	640	817
Grand Total	8,010	10,220

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
- The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.
- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

Response: The Project Costs Chart is completed. This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction (renovation) cost per GSF of approximately \$6.19. The total project would approximate \$121.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The chart below, prepared by the HSDA, indicates construction costs for recent nursing home applications. A review of these average costs indicate this particular project is financially feasible.

Nursing Home Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1 st Quartile	NA	\$158.44/sq ft	\$94.55/sq ft
Median	NA	\$167.31/sq ft	\$165.00/sq ft
3 rd Quartile	NA	\$176.00/sq ft	\$168.25/sq ft

Source: CON approved applications for years 2009 through 2011

Due to insufficient sample size, Renovated Construction is not available.

PROJECT COSTS CHART

SUPPLEMENTAL

A. Construction and equipment acquired by purchase.

1. Architectural and Engineering Fees	\$ 25,000
2. Legal, Administrative (Excluding CON Filing Fee), Consultant	35,000
3. Acquisition of Site	
4. Preparation of Site	
5. Construction Costs	235,000
6. Contingency Fund	50,000
7. Fixed Equipment (Not included in Construction Contract)(Generator/Nurse Call)	105,000
8. Moveable Equipment (List all equipment over \$50,000)*	171,000
9. Other (Specify)	
Subsection A Total	621,000

B. Acquisition by gift, donation, or lease.

1. Facility (Inclusive of Building and Land) (FMV of Property)	4,000,000
2. Building Only	
3. Land Only	
4. Equipment (Specify)	
5. Other (Specify)	
Subsection B Total	4,000,000

C. Financing costs and fees

1. Interim Financing	
2. Underwriting Costs	
3. Reserve for One Year's Debt Service	
4. Other (Specify)	
Subsection C Total	0

D. Estimated Project Cost (A + B + C)	\$ 4,621,000
E. CON Filing Fee	\$ 10,397.25
F. Total Estimated Project Cost (D + E)	TOTAL \$ 4,631,397.25

For Information Only

(This is the anticipated costs for the 60 bed facility if both applications are approved)

PROJECT COSTS CHART – 60 bed

2012 AUG 14 PM 3: 09

A. Construction and equipment acquired by purchase.

1. Architectural and Engineering Fees	\$ 25,000
2. Legal, Administrative (Excluding CON Filing Fee), Consultant	35,000
3. Acquisition of Site	
4. Preparation of Site	
5. Construction Costs	235,000
6. Contingency Fund	50,000
7. Fixed Equipment (Not included in Construction Contract)(Generator, Nurse Call)	105,000
8. Moveable Equipment (List all equipment over \$50,000)*	271,000
9. Other (Specify)	
Subsection A Total	721,000

B. Acquisition by gift, donation, or lease.

1. Facility (Inclusive of Building and Land) (FMV of Property)	4,000,000
2. Building Only	
3. Land Only	
4. Equipment (Specify)	
5. Other (Specify)	
Financing	
Subsection B Total	4,000,000

C. Financing costs and fees

1. Interim Financing	
2. Underwriting Costs	
3. Reserve for One Year's Debt Service	
4. Other (Specify)	
Subsection C Total	0

D. Estimated Project Cost (A + B + C)	\$ 4,721,000
E. CON Filing Fee	\$
F. Total Estimated Project Cost (D + E)	TOTAL \$

2. Identify the funding sources for this project.

- a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.*)**

- ☐ **A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**
- ☐ **B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**
- ☐ **C. General obligation bonds--Copy of resolution from issuing authority or minutes from the appropriate meeting.**
- ☐ **D. Grants--Notification of intent form for grant application or notice of grant award; or**
- ☒ **E. Cash Reserves--Appropriate documentation from Chief Financial Officer.**
- ☐ **F. Other--Identify and document funding from all other sources.**

Response: This project will be financed with cash reserves. As stated in *Attachment C.EF.2*, sufficient funds have been deposited and are dedicated to this project.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

Response: The Project Costs Chart is completed. This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction cost per GSF of approximately \$6.19. The total project would approximate \$121.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The chart below, prepared by the HSDA, indicates construction costs for recent nursing home applications. A review of these average costs indicate this particular project is financially feasible.

Nursing Home Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1 st Quartile	NA	\$158.44/sq ft	\$94.55/sq ft
Median	NA	\$167.31/sq ft	\$165.00/sq ft
3 rd Quartile	NA	\$176.00/sq ft	\$168.25/sq ft

Source: CON approved applications for years 2009 through 2011

Due to insufficient sample size, Renovated Construction is not available.

4. **Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).**

Response: Historical and Projected Data Charts are completed.

Historical Data Chart: As a new facility, there is no historical data.

Projected Data Chart: Completed. Although not requested in the application form, a Projected Data Chart is included for the 30 bed addition, and another is included for the entire 60 bed facility, assuming both applications are approved.

Please note that there is no provision for "Bad Debt" in the Projected Data Chart. It is our understanding that, traditionally and informally, the HSDA defines "bad debt" on this chart as that care rendered to individuals who, upon admission, it is felt will be able to pay for health care, but do not. Facilities managed by Grace Healthcare, LLC do not budget for bad debt, as defined. They have staff that work with such patients upon admission, and those patients will normally be certified for Medicaid. Since all patients we serve will qualify as either Medicare, Medicaid, or private pay, we anticipate no bad debt.

Further, Grace Healthcare, LLC has not had to write off any bad debt in some time, and anticipate very little problem in continuing to be paid by Medicare, Medicaid, or private pay individuals.

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency.
The fiscal year begins in _____(month).

Response: N/A, as a new facility.

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A.	Utilization/Occupancy Rate			
B.	Revenue from Services to Patients			
	1. Inpatient Services	_____	_____	_____
	2. Outpatient Services	_____	_____	_____
	3. Emergency Services	_____	_____	_____
	4. Other Operating Revenue (Specify) _____	_____	_____	_____
	Gross Operating Revenue	_____	_____	_____
C.	Deductions from Operating Revenue			
	1. Contractual Adjustments	_____	_____	_____
	2. Provision for Charity Care	_____	_____	_____
	3. Provision for Bad Debt	_____	_____	_____
	Total Deductions	_____	_____	_____
	NET OPERATING REVENUE	_____	_____	_____
D.	Operating Expenses			
	1. Salaries and Wages	_____	_____	_____
	2. Physician's Salaries and Wages	_____	_____	_____
	3. Supplies	_____	_____	_____
	4. Taxes	_____	_____	_____
	5. Depreciation	_____	_____	_____
	6. Rent	_____	_____	_____
	7. Interest, other than Capital	_____	_____	_____
	8. Other Expenses (Specify) _____	_____	_____	_____
	Total Operating Expenses	_____	_____	_____
E.	Other Revenue (Expenses)-Net (Specify) _____	_____	_____	_____
	NET OPERATING INCOME (LOSS)	_____	_____	_____
F.	Capital Expenditures			
	1. Retirement of Principal	_____	_____	_____
	2. Interest	_____	_____	_____
	Total Capital Expenditure	_____	_____	_____
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	_____	_____	_____

Supplemental Projected Data Chart – with Medicaid

PROJECTED DATA CHART – 30 beds with 40% NF Medicaid Residents

SUPPLEMENTAL

	Yr-1 2012 AUG 16 PM 2: 51	Yr-2
A. Utilization/Occupancy	<u>8,318</u>	<u>10,587</u>
B. Revenue from Services to Patients		
1. Inpatient Services	<u>3,224,106.00</u>	<u>4,216,590.00</u>
2. Outpatient Services	<u> </u>	<u> </u>
3. Emergency Services	<u> </u>	<u> </u>
4. Other Operating Revenue (Specify)	<u> </u>	<u> </u>
Gross Operating Revenue	<u>3,224,106.00</u>	<u>4,216,590.00</u>
C. Deductions from Operating Revenue		
1. Contractual Adjustments	<u>971,802.75</u>	<u>1,359,823.95</u>
2. Provision for Charity Care	<u>30,334.61</u>	<u>21,082.95</u>
3. Provision for Bad Debt	<u> </u>	<u> </u>
Total Deductions	<u>1,002,137.36</u>	<u>1,380,906.90</u>
NET OPERATING REVENUE	<u>2,221,968.64</u>	<u>2,835,683.10</u>
D. Operating Expenses		
1. Salaries and Wages	<u>1,744,703.93</u>	<u>1,860,699.10</u>
2. Physician's Salaries and Wages (Contracted)	<u>30,000.00</u>	<u>30,000.00</u>
3. Supplies	<u>235,856.40</u>	<u>302,347.75</u>
4. Taxes	<u>158,621.28</u>	<u>158,802.80</u>
5. Depreciation	<u>48,000.00</u>	<u>48,000.00</u>
6. Rent	<u>144,000.00</u>	<u>144,000.00</u>
7. Interest, other than Capital	<u> </u>	<u> </u>
8. Management Fees:		
a. Fees to Affiliates	<u>56,307.58</u>	<u>71,419.15</u>
b. Fees to Non-Affiliates	<u> </u>	<u> </u>
9. Other Expenses (Specify) <u>see attached chart</u>	<u>599,490.25</u>	<u>701,405.40</u>
Total Operating Expenses	<u>3,016,979.44</u>	<u>3,316,674.20</u>
E. Other Revenue (Expenses)-Net (Specify)	<u> </u>	<u> </u>
NET OPERATING INCOME (LOSS)	<u>(795,010.80)</u>	<u>(480,991.10)</u>
F. Capital Expenditures		
1. Retirement of Principal	<u> </u>	<u> </u>
2. Interest (on Letter of Credit)	<u> </u>	<u> </u>
Total Capital Expenditure	<u> </u>	<u> </u>
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	<u>(795,010.80)</u>	<u>(480,991.10)</u>

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	68,114.76	68,364.35
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	288,660.00	372,300.00
Accounting	3,160.08	4,022.30
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	9,568.68	9,833.55
Bank Fees	3,575.88	4,551.55
Dues & Subscriptions	2,910.60	3,704.75
Permits/Licenses	831.60	1,058.50
Postage	1,496.88	1,905.30
Training/Seminars	2,494.80	3,175.50
Purchased Services	65,556.97	79,369.60
TOTAL (line D.8)	599,490.25	701,405.40

PROJECTED DATA CHART – 60 beds with 40% NF Medicaid Residents

	Yr-1 2012 AUG 16 PM 2: 51 16,539	Yr-2 20,807
A. Utilization/Occupancy		
B. Revenue from Services to Patients		
1. Inpatient Services	6,673,279.50	8,396,122.50
2. Outpatient Services		
3. Emergency Services		
4. Other Operating Revenue (Specify)		
Gross Operating Revenue	6,673,279.50	8,396,122.50
C. Deductions from Operating Revenue		
1. Contractual Adjustments	2,110,376.40	2,656,103.30
2. Provision for Charity Care	33,366.40	41,980.61
3. Provision for Bad Debt		
Total Deductions	2,143,742.80	2,698,083.91
NET OPERATING REVENUE	4,529,536.70	5,698,038.59
D. Operating Expenses		
1. Salaries and Wages	2,400,416.09	2,578,539.65
2. Physician's Salaries and Wages (Contracted)	30,000.00	30,000.00
3. Supplies	487,412.30	634,340.80
4. Taxes	226,022.96	226,364.40
5. Depreciation	84,000.00	84,000.00
6. Rent	144,000.00	144,000.00
7. Interest, other than Capital		
8. Management Fees:		
a. Fees to Affiliates	114,072.58	143,500.48
b. Fees to Non-Affiliates		
9. Other Expenses (Specify) <u>see attached chart</u>	993,839.68	1,405,195.32
Total Operating Expenses	4,479,763.61	5,245,940.65
E. Other Revenue (Expenses)-Net (Specify)		
NET OPERATING INCOME (LOSS)	49,773.09	452,097.94
F. Capital Expenditures		
1. Retirement of Principal		
2. Interest (on Letter of Credit)		
Total Capital Expenditure		
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	49,773.09	452,097.94

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	69,019.07	69,488.55
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	615,955.00	775,625.00
Accounting	6,284.06	7,905.90
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	10,585.51	11,089.15
Bank Fees	7,110.91	8,946.15
Dues & Subscriptions	5,787.95	7,281.75
Permits/Licenses	1,653.70	2,080.50
Postage	2,976.66	3,744.90
Training/Seminars	4,961.10	6,241.50
Purchased Services	116,385.72	359,671.92
TOTAL (line D.8)	993,839.68	1,405,195.32

Supplemental Projected Data Chart, without Medicaid
SUPPLEMENTAL

PROJECTED DATA CHART – 30 beds with no Medicaid Residents

	Yr-1 <u>7,522</u>	Yr-2 <u>10,222</u>
A. Utilization/Occupancy		
B. Revenue from Services to Patients		
1. Inpatient Services	<u>4,806,675.00</u>	<u>6,671,205.00</u>
2. Outpatient Services	<u> </u>	<u> </u>
3. Emergency Services	<u> </u>	<u> </u>
4. Other Operating Revenue (Specify)	<u> </u>	<u> </u>
Gross Operating Revenue	<u>4,806,675.00</u>	<u>6,671,205.00</u>
C. Deductions from Operating Revenue		
1. Contractual Adjustments	<u>2,162,615.00</u>	<u>2,553,645.00</u>
2. Provision for Charity Care	<u>24,033.37</u>	<u>33,356.02</u>
3. Provision for Bad Debt	<u> </u>	<u> </u>
Total Deductions	<u>2,186,648.37</u>	<u>2,587,001.02</u>
NET OPERATING REVENUE	<u>2,620,026.63</u>	<u>4,084,203.98</u>
D. Operating Expenses		
1. Salaries and Wages	<u>1,738,972.73</u>	<u>1,858,071.10</u>
2. Physician's Salaries and Wages (Contracted)	<u>30,000.00</u>	<u>30,000.00</u>
3. Supplies	<u>351,815.50</u>	<u>487,895.50</u>
4. Taxes	<u>158,557.60</u>	<u>158,773.60</u>
5. Depreciation	<u>48,000.00</u>	<u>48,000.00</u>
6. Rent	<u>144,000.00</u>	<u>144,000.00</u>
7. Interest, other than Capital	<u> </u>	<u> </u>
8. Management Fees:		
a. Fees to Affiliates	<u>66,101.50</u>	<u>102,939.00</u>
b. Fees to Non-Affiliates	<u> </u>	<u> </u>
9. Other Expenses (Specify) <u>see attached chart</u>	<u>892,038.80</u>	<u>1,147,566.80</u>
Total Operating Expenses	<u>3,429,486.13</u>	<u>3,977,246.00</u>
E. Other Revenue (Expenses)-Net (Specify)	<u> </u>	<u> </u>
NET OPERATING INCOME (LOSS)	<u>(809,459.50)</u>	<u>106,957.98</u>
F. Capital Expenditures		
1. Retirement of Principal	<u> </u>	<u> </u>
2. Interest (on Letter of Credit)	<u> </u>	<u> </u>
Total Capital Expenditure	<u> </u>	<u> </u>
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	<u>(809,459.50)</u>	<u>106,957.98</u>

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	68,027.20	68,324.20
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	577,150.00	806,650.00
Accounting	2,857.60	3,883.60
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	10,223.60	10,844.60
Bank Fees	3,233.60	4,394.60
Dues & Subscriptions	2,632.00	3,577.00
Permits/Licenses	752.00	1,022.00
Postage	1,353.60	1,839.60
Training/Seminars	2,256.00	3,066.00
Purchased Services	70,433.20	90,845.20
TOTAL (line D.8)	892,038.80	1,147,566.80

PROJECTED DATA CHART – 60 beds with no Medicaid Residents

	Yr-1 2012 AUG 16 PM 2: 51 14,312	Yr-2 18,982
A. Utilization/Occupancy		
B. Revenue from Services to Patients		
1. Inpatient Services	9,342,090.00	12,568,185.00
2. Outpatient Services		
3. Emergency Services		
4. Other Operating Revenue (Specify)		
Gross Operating Revenue	9,342,090.00	12,568,185.00
C. Deductions from Operating Revenue		
1. Contractual Adjustments	4,185,730.00	5,684,285.00
2. Provision for Charity Care	46,710.45	62,840.93
3. Provision for Bad Debt		
Total Deductions	4,232,440.45	5,747,125.93
NET OPERATING REVENUE	5,109,649.55	6,821,059.08
D. Operating Expenses		
1. Salaries and Wages	2,379,543.29	2,709,103.05
2. Physician's Salaries and Wages (Contracted)	30,000.00	30,000.00
3. Supplies	660,162.70	929,399.50
4. Taxes	225,791.04	226,218.40
5. Depreciation	84,000.00	84,000.00
6. Rent	144,000.00	144,000.00
7. Interest, other than Capital		
8. Management Fees:		
a. Fees to Affiliates	138,828.00	194,910.00
b. Fees to Non-Affiliates		
9. Other Expenses (Specify) <u>see attached chart</u>	1,563,486.36	1,953,800.70
Total Operating Expenses	5,225,811.39	6,271,431.65
E. Other Revenue (Expenses)-Net (Specify)		
NET OPERATING INCOME (LOSS)	(116,161.84)	549,627.43
F. Capital Expenditures		
1. Retirement of Principal		
2. Interest (on Letter of Credit)		
Total Capital Expenditure		
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	(116,161.84)	549,627.43

OTHER EXPENSES

SUPPLEMENTAL

Other Expenses	Yr-1	Yr-2
Insurance	68,700.18	69,287.80
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	1,097,180.00	1,551,250.00
Accounting	5,182.44	7,212.40
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	11,630.74	12,859.40
Bank Fees	5,864.34	8,161.40
Dues & Subscriptions	4,773.30	6,643.00
Permits/Licenses	1,363.80	1,898.00
Postage	2,454.84	3,416.40
Training/Seminars	4,091.40	5,694.00
Purchased Services	209,125.32	134,258.30
TOTAL (line D.8)	1,563,486.36	1,953,800.70

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

Response: Based on our projected occupancy the first year, the average gross patient charge (with 40% Medicaid NF residents) will be \$387.70 per day, with \$120.51 in average deductions, resulting in a net patient charge of \$267.19 per patient day. Based on our projected occupancy the first year, the average gross patient charge (without Medicaid patients) will be \$707.91 per day, with \$322.04 in average deductions, resulting in a net patient charge of \$385.87 per patient day. The facility will have a positive cash flow in Year 2 (Projected Data Chart) and succeeding years. (Note: If all 60 beds are eventually approved, these figures will drop to \$403.54, \$129.63, and \$273.91 with 40% Medicaid NF residents, and \$652.84, \$295.77, and \$357.07 with no Medicaid patients).

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Response: There are no current charges.

Based on our projected occupancy the first year, the average gross patient charge (with 40% Medicaid NF residents) will be \$387.70 per day, with \$120.51 in average deductions, resulting in a net patient charge of \$267.19 per patient day. Based on our projected occupancy the first year, the average gross patient charge (without Medicaid patients) will be \$707.91 per day, with \$322.04 in average deductions, resulting in a net patient charge of \$385.87 per patient day. The facility will have a positive cash flow in Year 2 (Projected Data Chart) and succeeding years. (Note: If all 60 beds are eventually approved, these figures will drop to \$403.54, \$129.63, and \$273.91 with 40% Medicaid NF residents, and \$652.84, \$295.77, and \$357.07 with no Medicaid patients).

Our projections will not be altered as a result of implementation of the proposal.

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: The following information was obtained from the latest Joint Annual Reports ("JARs") from the existing nursing homes in Hamilton County. Average figures were calculated by dividing the number of patient days into the (1) Total Gross Patient Revenues, (2) Total Adjustments to Revenues, and (3) Total Net Patient Revenues for 2010. The resultant information is given in the chart below:

**Patient Charge Data, Nursing Homes
Hamilton County, 2010**

Nursing Home	Beds	Occ.	Pt days	Avg. Gross	Avg. Deduct	Avg. Net
Alexian Village Health & Rehabilitation Ctr	114	87.8%	36,546	\$195.42	\$0.00	\$195.42
Consulate Health Care of Chattanooga	127	94.8%	43,953	\$197.40	\$0.00	\$197.40
The Health Center at Standifer place	474	84.9%	146,871	\$440.14	\$90.36	\$349.79
Life Care Center of Missionary Ridge	78	77.6%	22,082	\$239.56	\$37.62	\$201.94
NHC Healthcare, Chattanooga	207	90.0%	67,963	\$229.21	\$15.17	\$214.04
Saint Barnabas Nursing home	108	88.3%	34,791	\$281.90	\$29.73	\$252.17
Life Care Center of East Ridge	160	71.4%	41,710	\$173.97	\$2.61	\$171.35
Life Care Center of Collegedale	124	93.6%	42,374	\$250.75	\$14.35	\$236.40
Life Care Center of Red Bank	148	94.0%	50,803	\$239.20	\$15.77	\$223.42
Soddy Daisy Healthcare Center	120	84.8%	37,130	\$324.81	\$56.93	\$267.88
Siskin Hospital's Sub acute Rehab program	29	87.3%	9,238	\$831.63	\$385.56	\$446.08

Source: Joint Annual Reports for Nursing Homes, 2010

Notes: Avg. Gross = average gross charge per patient day

Avg. Deduct = average deductions per patient day

Avg. Net = average net charge per patient day

Based on our projected occupancy the first year, the average gross patient charge (with 40% Medicaid NF residents) will be \$387.70 per day, with \$120.51 in average deductions, resulting in a net patient charge of \$267.19 per patient day. Based on our projected occupancy the first year, the average gross patient charge (without Medicaid patients) will be \$707.91 per day, with \$322.04 in average deductions, resulting in a net patient charge of \$385.87 per patient day. The facility will have a positive cash flow in Year 2 (Projected Data Chart) and succeeding years. (Note: If all 60 beds are eventually approved, these figures will drop to \$403.54, \$129.63, and \$273.91 with 40% Medicaid NF residents, and \$652.84, \$295.77, and \$357.07 with no Medicaid patients).

Our projections will not be altered as a result of implementation of the proposal.

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in Year 2. Obviously, income is dependent upon rendering services to a sufficient number of patients. As the Applicant's owners and the management company has been in business for many years, the Applicant feels comfortable with the projections.

Further, since the need for nursing home beds totals 735 beds, the percentage of elderly population is growing at almost 10 times the general population growth and the facility will be located in an area of the county where nursing home beds are utilized at higher occupancy rates, the Applicant feels that projected utilization rates will be sufficient to maintain cost-effectiveness.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in Year 2. Obviously, income is dependent upon rendering services to a sufficient number of patients. As the Applicant's owners and the management company has been in business for many years, the Applicant feels comfortable with the projections.

Further, since the need for nursing home beds totals 735 beds, the percentage of elderly population is growing at almost 10 times the general population growth and the facility will be located in an area of the county where nursing home beds are utilized at higher occupancy rates, the Applicant feels that projected utilization rates will be sufficient to maintain cost-effectiveness.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

Response: The nursing home will participate in both the Medicare and Medicaid programs.

We anticipate that 77% of our patients will be Medicare patients and 15% of our patients will be Medicaid (TennCare) skilled patients.

For the 30 beds, only, assuming net revenue of \$2,221,968.64 the first year, approximately \$1,710,916 will be reimbursed by Medicare (Net Revenue of \$2,221,968.64 x 77% Medicare), with 40% Medicaid NF residents. For the 30 beds, only, assuming net revenue of \$2,620,026.63 the first year, approximately \$2,017,421 will be reimbursed by Medicare (Net Revenue of \$2,620,026.63 x 77% Medicare), with no Medicaid patents.

For the 30 beds, only, assuming net revenue of \$2,221,968.64 the first year, approximately \$99,989 will be reimbursed by Medicaid (Net Revenue of \$2,221,968.64 x 15% x 30% State Share), with 40% Medicaid NF residents. For the 30 beds, only, assuming net revenue of \$2,620,026.63 the first year, approximately \$117,902 will be reimbursed by Medicaid (Net Revenue of \$2,620,026.63 x 15% x 30% State Share), with no Medicaid patents.

The following is given for informational purposes, only, assuming the Applicant is approved for 60 beds:

For the 60 beds, assuming net revenue of \$4,529,536.70 the first year, approximately \$3,487,744 will be reimbursed by Medicare (Net Revenue of \$4,529,536.70 x 77% Medicare), with 40% Medicaid residents. For the 60 beds, assuming net revenue of \$5,109,649.55 the first year, approximately \$3,934,431 will be reimbursed by Medicare (Net Revenue of \$5,109,649.55 x 77% Medicare), with no Medicaid patients.

For the 60 beds, assuming net revenue of \$4,529,536.70 the first year, approximately \$203,830 will be reimbursed by Medicaid (Net Revenue of \$4,529,536.70 x 15% x 30% State Share), with 40% Medicaid residents. For the 60 beds, assuming net revenue of \$5,109,649.55 the first year, approximately \$229,935 will be reimbursed by Medicaid (Net Revenue of \$5,109,649.55 x 15% x 30% State Share), with no Medicaid patients.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

Response: The Applicant, as a new entity, has no financial statements. This project will be financed with cash reserves. As stated in *Attachment C.EF.2*, sufficient funds have been deposited and are dedicated to this project.

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
- a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response: The Applicant's owner has been in the nursing home business for many years. The management company's majority owner is the Applicant's owner, and the management company manages about 38 nursing homes, 20 in Tennessee. Further, the Applicant's owner is also the majority owner of the property owner. In short, this application represents many years of successful provision of long term care in Tennessee. The owner felt that this alternative was the best alternative to provide needed skilled care in Hamilton County.

One alternative was to build another facility to house the requested beds. This alternative was discarded due to the higher costs.

Another alternative was to do nothing. Such would have continued the need for skilled care in Hamilton County, so this alternative was also discarded.

The final alternative was to attempt to build a larger facility, as the need for nursing home beds in Hamilton County now stands at 735 additional beds needed. State statutes prohibited requesting more than 30 skilled beds per fiscal year, so this alternative was discarded.

- b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response: The Applicant's owner has been in the nursing home business for many years. The management company's majority owner is the Applicant's owner, and the management company manages about 38 nursing homes, 20 in Tennessee. Further, the Applicant's owner is also the majority owner of the property owner. In short, this application represents many years of successful provision of long term care in Tennessee. The owner felt that this alternative was the best alternative to provide needed skilled care in Hamilton County.

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The final alternative was to attempt to build a larger facility, as the need for nursing home beds in Hamilton County now stands at 735 additional beds needed. State statutes prohibited requesting more than 30 skilled beds per fiscal year, so this alternative was discarded.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

Response: The Applicant, through its management company, will continue existing relationships with facilities in the area. Transfer agreements will be negotiated with acute care facilities.

We plan to contract with Americhoice and BCBS of TN. Through BCBS of TN, we will also serve TennCare Select patients.

Medicare HMO and insurance contracts will be negotiated on an as-needed basis, based on referrals received from local hospitals.

Finally, the Applicant will contract with any new MCOs that provide services in the area.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

Response: This first application is for 30 skilled beds that are subject to the “pool” of beds authorized for the FY 2011-2012. It is intended to file a second 30 skilled bed application that will be subject to the FY 2012-2013 “pool” of nursing home beds. The Applicant intends to eventually operate a 60 skilled bed nursing home. See *Attachment B.II.A* for an inventory of existing beds and historic utilization.

The nursing home bed utilization data supplied by the State indicates that there are currently 1,689 existing nursing home beds in Hamilton County (2010 JARs), and 120 replacement beds have been approved but not yet in service, with a total statistical need of 2,544 beds by 2014. This means that there is a need for 735 nursing home beds in the County. Approval of this application will help satisfy that need.

In addition, the Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State’s elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,000 new beds have been authorized (8 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 24 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 52 of the pending beds are approved, there remain ample beds from the pool to approve this project.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion –THS – Wilson Co.)

Source: HSDA Website

This is a clear indication that facilities are applying for these beds only when it is felt the beds are needed – not just because the beds are available. Such is the case with this particular application.

To conclude, the approval of this project should not impact existing facilities in the County. First, the requested beds (30) would result in an increase of only 1.6% of the total beds in the County. Second, those facilities providing quality care would not be affected by such a small increase at our facility. Third, the overall bed need in Hamilton County is for 2,544 beds by 2014, and there are only 1,809 beds available (1,689 in existence plus another 120 beds approved but not yet in service). Fourth, by converting an existing health care facility, we are able to modify the physical plant for limited funds, making the transition to nursing home very feasible from a financial standpoint. And fifth, the site for the proposed nursing home is located in a high growth corridor of the county, and nursing homes located in this section of the county seem to have higher occupancy rates than the average of other nursing homes in Hamilton County.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

Response: The addition of these 30 requested beds will entail the hiring of approximately 2 RNs, 3 LPNs and 8 CNAs. Nursing staffing is readily available, as only approximately 26 nurses are required to staff a 60 bed facility, and this project is for only 30 beds. We do not anticipate any problems in securing nursing staff for this facility. Grace Healthcare, the management company, manages approximately 38 nursing homes, 20 in Tennessee, and its HR department keeps RN, LPN, CNAs, housekeeping and dietary positions open for application. In addition, Grace Healthcare has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

Existing and Year 1 nursing personnel and salary ranges are given below:

Nursing Personnel

Position	Year 1	Salary Range
RN	2	\$50,000 – 55,000/yr
LPN	3	\$38,000 – 43,000/yr
CNA	8	\$20,000 – 25,000/yr

For informational purposes only, assuming both 30 bed applications are approved, the nursing staff required to staff a 60 bed skilled facility would be double what is in the chart above.

In addition, please see *Attachment C.OD.3* for prevailing wage patterns in the area.

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

Response: The addition of these 30 requested beds will entail the hiring of approximately 2 RNs, 3 LPNs and 8 CNAs. Nursing staffing is readily available, as only approximately 26 nurses are required to staff a 60 bed facility, and this project is for only 30 beds. We do not anticipate any problems in securing nursing staff for this facility. Grace Healthcare, LLC, the management company, manages approximately 38 nursing homes, 20 in Tennessee, and its HR department keeps RN, LPN, CNAs, housekeeping and dietary positions open for application. In addition, Grace Healthcare has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

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CNA	8	\$20,000 – 25,000/yr

For informational purposes only, assuming both 30 bed applications are approved, the nursing staff required to staff a 60 bed skilled facility would be double what is in the chart above.

In addition, please see *Attachment C.OD.3* for prevailing wage patterns in the area.

5. Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.*

Response: The Applicant is familiar with all licensing certification requirements for medical/clinical staff.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g., internships, residencies, etc.*).

Response: Grace Healthcare, LLC has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

Response: The Applicant is familiar with all licensure requirements of the regulatory agencies of the State.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response:

Licensure: Tennessee Department of Health

Accreditation: Medicare, Medicaid

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Response: N/A.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: N/A.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response: There have been no final orders or judgments as are contemplated by this question.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project

Response: There have been no final orders or judgments as are contemplated by this question.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response: The Applicant will provide all data contemplated by this question.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: Please see attached tear sheet from the newspaper.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.
2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the “good cause” for such an extension.

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART SUPPLEMENTAL

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 11/2012.

Assuming the CON approval becomes the final agency action on that date, indicate the number of day from ²⁰¹² 11/11/2012 ²⁰¹² 11/11/2012 the above agency decision date to each phase of the completion forecast.

<u>Phase</u>	<u>DAYS REQUIRED</u>	<u>Anticipated Date (MONTH/YEAR)</u>
1. Architectural and engineering contract signed	<u>30</u>	<u>12/2012</u>
2. Construction documents approved by the Tennessee Department of Health	<u>30</u>	<u>01/2013</u>
3. Construction contract signed	<u> </u>	<u>01/2013</u>
4. Building permit secured	<u> </u>	<u>01/2013</u>
5. Site preparation completed	<u> </u>	<u>01/2013</u>
6. Building construction commenced (<u>renovation</u>)	<u>30</u>	<u>02/2013</u>
7. Construction 40% complete	<u> </u>	<u> </u>
8. Construction 80% complete	<u> </u>	<u> </u>
9. Construction 100% complete (approved for occupancy (renovation))	<u>30</u>	<u>03/2013</u>
10. *Issuance of license	<u>15</u>	<u>04/2013</u>
11. *Initiation of service	<u> </u>	<u>04/2013</u>
12. Final Architectural Certification of Payment	<u> </u>	<u>04/2013</u>
13. Final Project Report Form (HF0055)	<u> </u>	<u>04/2013</u>

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

2012 JUN 14 PM 1 59

E. Graham Baker, Jr., being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of his/her knowledge.

E. Graham Baker, Jr. ATTORNEY
SIGNATURE/TITLE

Sworn to and subscribed before me this 14th day of June, 2012, a
(month) (year)

Notary Public in and for the County/State of Davidson/Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC



My commission expires May 6th, 2013.
(Month/Day) (Year)

NURSING HOME SERVICES

A. Need

1. According to TCA §68-11-108 (sic), the need for nursing home beds shall be determined by applying the following population-based statistical methodology:

$$\begin{aligned} \text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus} \end{aligned}$$

Response: This first application is for 30 skilled beds that are subject to the “pool” of beds authorized for the FY 2011-2012. It is intended to file a second 30 skilled bed application that will be subject to the FY 2012-2013 “pool” of nursing home beds. The Applicant intends to eventually operate a 60 skilled bed nursing home. See *Attachment B.II.A* for an inventory of existing beds and historic utilization.

The nursing home bed utilization data supplied by the State indicates that there are currently 1,689 existing nursing home beds in Hamilton County (2010 JARs), and 120 replacement beds have been approved but not yet in service, with a total statistical need of 2,544 beds by 2014. This means that there is a need for 735 nursing home beds in the County. Approval of this application will help satisfy that need.

In addition, the Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State’s elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the

general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to

average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,000 new beds have been authorized (8 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 24 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 52 of the pending beds are approved, there remain ample beds from the pool to approve this project.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion –THS – Wilson Co.)

Source: HSDA Website

This is a clear indication that facilities are applying for these beds only when it is felt the beds are needed – not just because the beds are available. Such is the case with this particular application.

To conclude, the approval of this project should not impact existing facilities in the County. First, the requested beds (30) would result in an increase of only 1.6% of the total beds in the County. Second, those facilities providing quality care would not be affected by such a small increase at our facility. Third, the overall bed need in Hamilton County is for 2,544 beds by 2014, and there are only 1,809 beds available (1,689 in existence plus another 120 beds approved but not yet in service). Fourth, by converting an existing health care facility, we are able to modify the physical plant for limited funds, making the transition to nursing home very feasible from a financial standpoint. And fifth, the site for the proposed nursing home is located in a high growth corridor of the county, and nursing homes located in this section of the county seem to have higher occupancy rates than the average of other nursing homes in Hamilton County.

- 2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.**

Response: According to the Tennessee Department of Health, there is a need for 2,544 beds in Hamilton County by 2014.

- 3. The source of the current supply and utilization of licensed and CON approved nursing home beds shall be inventory of nursing home beds maintained by the Department of Health.**

Response: Please see *Attachment B.II.A* for the most recent supply and utilization of licensed and CON approved nursing home beds in the service area:

- 4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.**

Response: The service area will be Hamilton County.

Please see *Attachment C.Need.3* for a map of the service area.

5. The Health Facilities Commission (sic) may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

Response: There currently exist 11 nursing homes in the county. Another facility (Life Care Center of Chattanooga) recently shut down its 153 bed facility and was approved for a replacement 120 bed facility. That replacement facility is not yet licensed.

- b. All nursing homes that serve that same service area population as the applicant have an annualized occupancy in excess of 90%.

Response: This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Attachment B.II.A shows that of the 11 facilities, 4 facilities operated at or above 90% in 2010.

B. Occupancy and Size Standards:

- 1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.**

Response: The Applicant anticipates exceeding this guideline.

- 2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently noncomplying (sic) with quality assurance regulations shall be considered in determining the service areas, average occupancy rate.**

Response: This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Attachment B.II.A shows that of the 11 facilities, 4 facilities operated at or above 90% in 2010.

- 3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for that previous year.**

Response: N/A, as this is a new facility.

- 4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The Health Facilities Commission (sic) may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.**

Response: The Applicant complies.

**State Health Plan
Division of Health Planning**

Five Principles for Achieving Better Health

1. The purpose of the State Health Plan is to improve the health of Tennesseans;

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State.

Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The bed need is for 2,544 beds in Hamilton County by 2014. Therefore, there is a need for the additional beds requested in this application.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

The approval of this application will improve the health of Tennesseans, especially the elderly of Hamilton County.

2. Every citizen should have reasonable access to health care;

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State.

Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The bed need is for 2,544 beds in Hamilton County by 2014. Therefore, there is a need for the additional beds requested in this application.

With such a great need, coupled with the increase in the elderly population, the approval of this application will increase access to health care.

3. **The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;**

Response: With Hamilton County in need of so many new nursing home beds (735), there is a tremendous need for new facilities to compete with existing nursing homes. The elderly population of Hamilton County is growing almost 10 times faster than the general population, and nursing home beds are now needed and will be needed in the future to care for these individuals.

This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction (renovation) cost per GSF of approximately \$6.19. The total project would approximate \$121.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The chart below, prepared by the HSDA, indicates construction costs for recent nursing home applications. A review of these average costs indicate this particular project is financially feasible.

Nursing Home Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1 st Quartile	NA	\$158.44/sq ft	\$94.55/sq ft
Median	NA	\$167.31/sq ft	\$165.00/sq ft
3 rd Quartile	NA	\$176.00/sq ft	\$168.25/sq ft

Source: CON approved applications for years 2009 through 2011

Due to insufficient sample size, Renovated Construction is not available.

Therefore, the approval of this application will address the needs of Tennesseans, especially the elderly, while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system.

4. **Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and**

Response: The Applicant, it's owner, and the management company for this project have decades of experience in the health care system and continually comply with and adhere to standards for health care providers.

5. **The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

Response: The approval of this project will result in the hiring of additional health care workers.

PETS



BICHON FRISE, Pups,
Adorable little white balls of fluff!
shots/worm \$350.423.334.1551



BORDER COLLIE Pups, ABCA
Excel stock dogs & pets \$250/\$350
931-939-2426/931-607-2426

BORDER COLLIE ABCA

Puppies, \$175
423-365-6076 / 423-240-8178

BOXER PUPPIES, NKC Reg.

10 weeks old. 1st shots, wormed,
2 males, 2 females. \$300.
Call 423-837-1963.

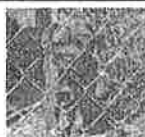
Chihuahua (2) Male & Female,
Very Small, 3 Months, \$150,
Call 423-413-2376

Chihuahua, Female, 1 1/2 Year
Old, 1 1/2 lbs. Asking \$300,
423-413-2376

FREE DOGS Mtn Cur 2yrs, old &
Felix 5yrs, old Adult Males, Neu-
tered, UTD shots 931-692-6295

FREE Kittens to good home,
Hixson, sweet & playful! Litter
trained 7 wks old 847-6774

FREE PUPPIES, To good home
"Border Collie/ Lab Mix"
6 Males 3 Females 1st shots
7wks 423-400-0522



LEGAL NOTICES

LEGAL NOTICES

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, intends to file an application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,526,161.00, including filing fee.

The anticipated date of filing the application is: June 15, 2012. The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 350, Nashville, TN 37215, 615/370-3380.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

34617738

Wild mustang makeover

Chattanooga Times Free Press

STRONG FINISH IN LOOKOUTS BODIES W/ FOR 2009 SEASON

Council to explore residency Saturday



Grand Regions by MCO



West Tennessee

AmeriChoice	Benton, Carroll, Chester, Crockett, Decatur, Dyer, Fayette, Gibson, Hardeman, Hardin, Haywood, Henderson, Henry, Lake, Lauderdale, Madison, McNairy, Obion, Shelby, Tipton, Weakley
BlueCare	
TennCare Select	

Middle Tennessee

AmeriChoice	Bedford, Cannon, Cheatham, Clay, Coffee, Cumberland, Davidson, DeKalb, Dickson, Fentress, Giles, Hickman, Houston, Humphreys, Jackson, Lawrence, Lewis, Lincoln, Macon, Marshall, Maury, Montgomery, Moore, Overton, Perry, Pickett, Putnam, Robertson, Rutherford, Smith, Stewart, Sumner, Trousdale, Van Buren, Warren, Wayne, White, Williamson, Wilson
AmeriGroup	
TennCare Select	

East Tennessee

AmeriChoice	Anderson, Bledsoe, Blount, Bradley, Campbell, Carter, Claiborne, Cocke, Franklin, Grainger, Greene, Grundy, Hamblen, Hamilton, Hancock, Hawkins, Jefferson, Johnson, Knox, Loudon, Marion, McMinn, Meigs, Monroe, Morgan, Polk, Rhea, Roane, Scott, Sequatchie, Sevier, Sullivan, Unicoi, Union, Washington
BlueCare	
TennCare Select	



Nursing Home Bed Utilization for Service Area 2008-2010

2008	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	85.6%	0.0%	84.3%	15.7%	35,613	254
330232	Consulate Health Care of Chattanooga	Hamilton	127	92.7%	0.0%	85.3%	14.7%	42,958	322
330332	The Health Center at Standifer place	Hamilton	474	86.3%	65.8%	40.7%	59.3%	149,383	1,103
330432	Life Care Center of Missionary Ridge	Hamilton	78	86.6%	76.2%	77.8%	22.2%	24,644	174
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.1%	54.6%	43.9%	56.1%	68,799	444
330832	Saint Barnabas Nursing home	Hamilton	108	85.6%	44.0%	60.4%	39.6%	33,749	367
330932	Life Care Center of East Ridge	Hamilton	160	71.3%	0.0%	34.7%	65.3%	41,640	931
331032	Life Care Center of Collegedale	Hamilton	124	95.2%	0.0%	49.9%	50.1%	43,097	320
331432	Life Care Center of Red Bank	Hamilton	148	94.7%	49.5%	18.7%	81.3%	51,167	529
332032	Life Care Center of Chattanooga	Hamilton	153	76.9%	0.0%	61.9%	38.1%	42,932	523
332232	Soddy Daisy Healthcare Center	Hamilton	120	90.0%	62.1%	71.9%	28.1%	39,417	272
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	63.5%	0.0%	0.0%	100.0%	6,726	570
TOTAL			1,842	86.3%				580,125	

Attachment B.II.A

2009	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	86.6%	0.0%	88.2%	11.8%	36,047	287
330232	Consulate Health Care of Chattanooga	Hamilton	127	91.2%	0.0%	81.8%	18.2%	42,277	256
330332	The Health Center at Standifer place	Hamilton	474	82.8%	66.7%	65.6%	34.4%	143,319	895
330432	Life Care Center of Missionary Ridge	Hamilton	78	89.2%	80.2%	83.6%	16.4%	25,399	137
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.8%	56.3%	59.8%	40.2%	69,385	424
330832	Saint Barnabas Nursing home	Hamilton	108	85.3%	50.0%	68.4%	31.6%	33,643	299
330932	Life Care Center of East Ridge	Hamilton	160	69.6%	0.0%	28.2%	71.8%	40,621	934
331032	Life Care Center of Collegedale	Hamilton	124	94.1%	51.9%	69.5%	30.5%	42,588	469
331432	Life Care Center of Red Bank	Hamilton	148	93.4%	48.6%	70.3%	29.7%	50,454	407
332032	Life Care Center of Chattanooga	Hamilton	153	49.9%	70.0%	68.0%	32.0%	27,841	293
332232	Soddy Daisy Healthcare Center	Hamilton	120	96.4%	51.2%	69.0%	31.0%	42,241	346
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	83.5%	0.0%	0.0%	100.0%	8,839	695
TOTAL			1,842	83.7%				562,654	

Nursing Home Bed Utilization for Service Area **2008-2010**

2010	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	87.8%	0.0%	85.2%	14.8%	36,546	323
330232	Consulate Health Care of Chattanooga	Hamilton	127	94.8%	0.0%	83.2%	16.8%	43,953	225
330332	The Health Center at Standifer place	Hamilton	474	84.9%	70.6%	66.4%	33.6%	146,871	964
330432	Life Care Center of Missionary Ridge	Hamilton	78	77.6%	81.5%	82.0%	18.0%	22,082	159
330732	NHC Healthcare, Chattanooga	Hamilton	207	90.0%	30.1%	35.0%	65.0%	67,963	429
330832	Saint Barnabas Nursing home	Hamilton	108	88.3%	51.8%	67.9%	32.1%	34,791	262
330932	Life Care Center of East Ridge	Hamilton	160	71.4%	0.0%	22.7%	77.3%	41,710	991
331032	Life Care Center of Collegedale	Hamilton	124	93.6%	32.4%	70.9%	29.1%	42,374	454
331432	Life Care Center of Red Bank	Hamilton	148	94.0%	53.9%	72.0%	28.0%	50,803	395
332232	Soddy Daisy Healthcare Center	Hamilton	120	84.8%	32.2%	73.7%	26.3%	37,130	173
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	87.3%	0.0%	0.0%	100.0%	9,238	749
	TOTAL		1,689	86.5%				533,461	

Source: 2008, 2009 & 2010 JAR Schedule E - Beds (Licensed) & Schedule F-Utilization - Part 1 (Level of Care in the Facility) & Part 2 (Resident Days of Care)

Note: Life Care Center of Chattanooga no longer in business in 2010; constructing a 120 bed replacement facility

State & County QuickFacts

Hamilton County, Tennessee

People QuickFacts	Hamilton County	Tennessee
Population, 2011 estimate	NA	6,403,353
Population, 2010	336,463	6,346,105
Population, percent change, 2000 to 2010	9.3%	11.5%
Population, 2000	307,896	5,689,283
Persons under 5 years, percent, 2010	6.1%	6.4%
Persons under 18 years, percent, 2010	21.6%	23.6%
Persons 65 years and over, percent, 2010	14.7%	13.4%
Female persons, percent, 2010	51.9%	51.3%
White persons, percent, 2010 (a)	73.9%	77.6%
Black persons, percent, 2010 (a)	20.2%	16.7%
American Indian and Alaska Native persons, percent, 2010 (a)	0.3%	0.3%
Asian persons, percent, 2010 (a)	1.8%	1.4%
Native Hawaiian and Other Pacific Islander, percent, 2010 (a)	0.1%	0.1%
Persons reporting two or more races, percent, 2010	1.7%	1.7%
Persons of Hispanic or Latino origin, percent, 2010 (b)	4.5%	4.6%
White persons not Hispanic, percent, 2010	72.0%	75.6%
Living in same house 1 year & over, 2006-2010	82.8%	83.8%
Foreign born persons, percent, 2006-2010	4.6%	4.4%
Language other than English spoken at home, pct age 5+, 2006-2010	6.0%	6.2%
High school graduates, percent of persons age 25+, 2006-2010	85.4%	82.5%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	27.0%	22.7%
Veterans, 2006-2010	28,136	505,746
Mean travel time to work (minutes), workers age 16+, 2006-2010	21.2	23.9
Housing units, 2010	151,107	2,812,133
Homeownership rate, 2006-2010	65.5%	69.6%
Housing units in multi-unit structures, percent, 2006-2010	24.2%	18.1%
Median value of owner-occupied housing units, 2006-2010	\$147,200	\$134,100
Households, 2006-2010	133,953	2,443,475
Persons per household, 2006-2010	2.40	2.49
Per capita money income in past 12 months (2010 dollars) 2006-2010	\$26,588	\$23,722
Median household income 2006-2010	\$45,408	\$43,314
Persons below poverty level, percent, 2006-2010	14.7%	16.5%
Business QuickFacts	Hamilton County	Tennessee
Private nonfarm establishments, 2009	8,756	132,901 ¹
Private nonfarm employment, 2009	170,950	2,317,986 ¹

Private nonfarm employment, percent change 2000-2009	-2.2%	-3.0% ¹
Nonemployer establishments, 2009	22,780	448,516
<hr/>		
Total number of firms, 2007	31,733	545,348
Black-owned firms, percent, 2007	9.3%	8.4%
American Indian- and Alaska Native-owned firms, percent, 2007	0.3%	0.5%
Asian-owned firms, percent, 2007	2.8%	2.0%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	F	0.1%
Hispanic-owned firms, percent, 2007	1.4%	1.6%
Women-owned firms, percent, 2007	24.6%	25.9%
<hr/>		
Manufacturers shipments, 2007 (\$1000)	8,040,623	140,447,760
Merchant wholesaler sales, 2007 (\$1000)	2,958,545	80,116,528
Retail sales, 2007 (\$1000)	4,865,677	77,547,291
Retail sales per capita, 2007	\$14,695	\$12,563
Accommodation and food services sales, 2007 (\$1000)	663,283	10,626,759
Building permits, 2010	817	16,475
Federal spending, 2009	3,427,904	65,525,306 ¹
<hr/>		
Geography QuickFacts	Hamilton County	Tennessee
Land area in square miles, 2010	542.43	41,234.90
Persons per square mile, 2010	620.3	153.9
FIPS Code	065	47
Metropolitan or Micropolitan Statistical Area	Chattanooga, TN-GA Metro Area	

1: Includes data not distributed by county.

Population estimates for counties will be available in April, 2012 and for cities in June, 2012.

(a) Includes persons reporting only one race.

(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information

F: Fewer than 100 firms

FN: Footnote on this item in place of data

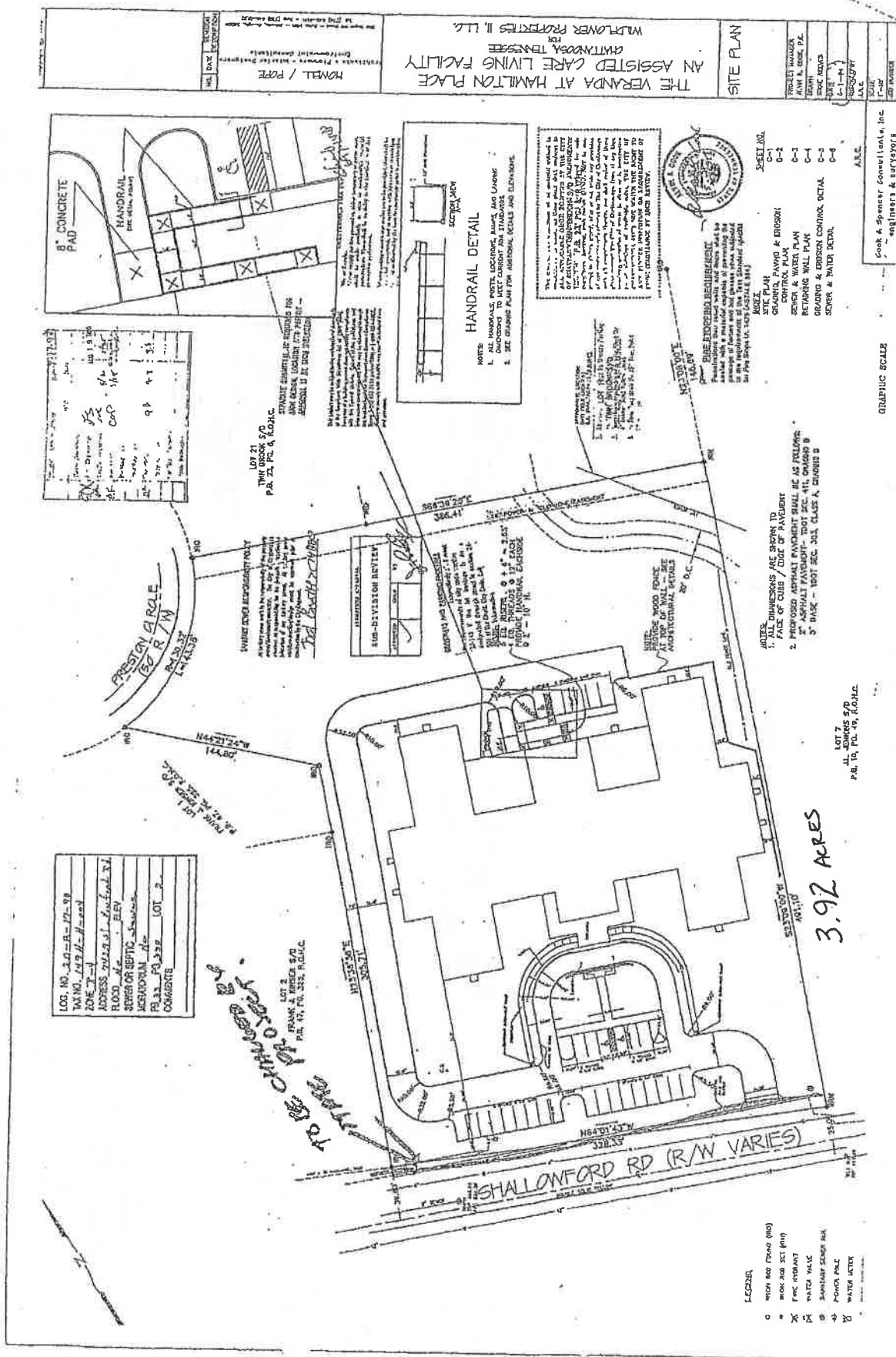
NA: Not available

S: Suppressed; does not meet publication standards

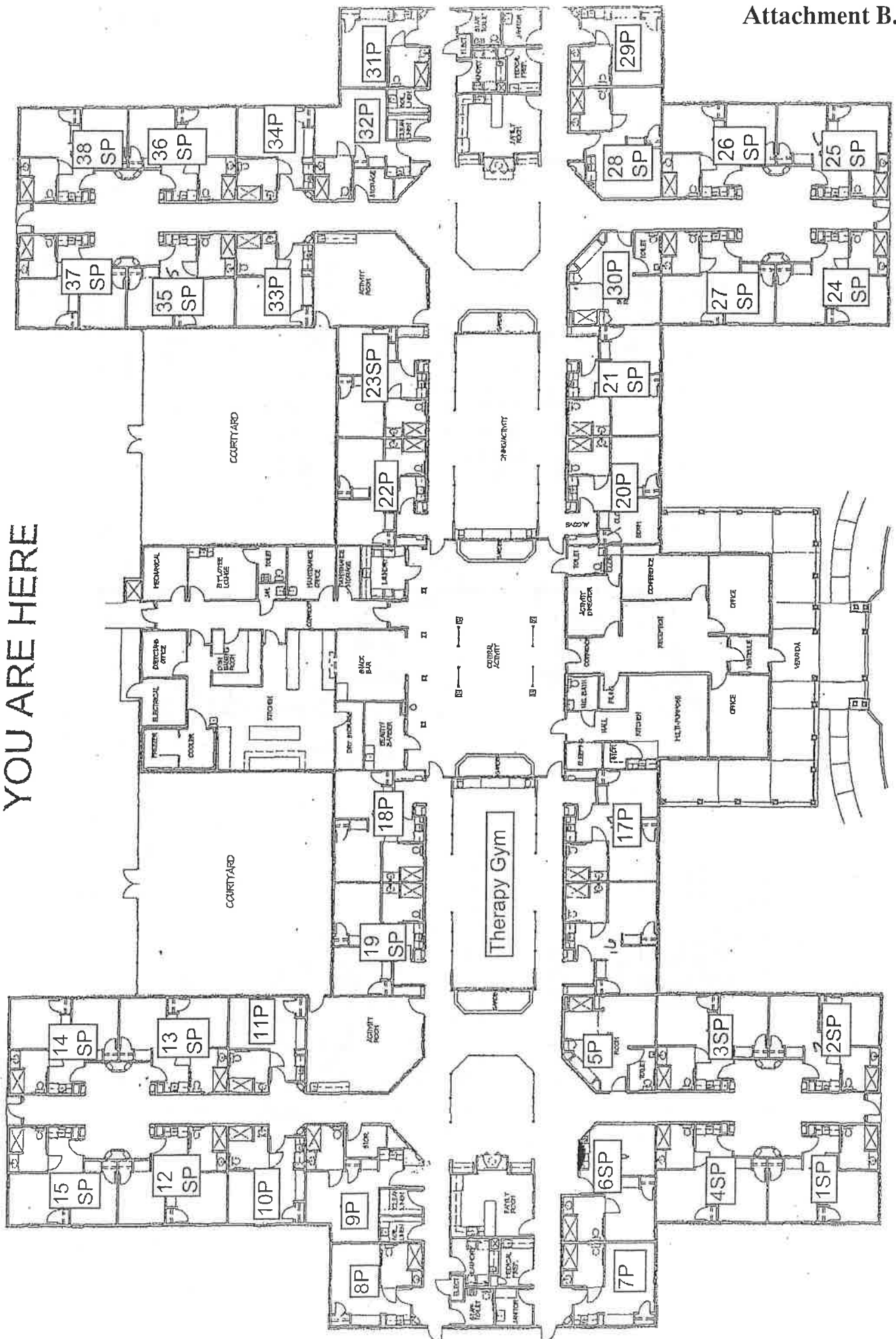
X: Not applicable

Z: Value greater than zero but less than half unit of measure shown

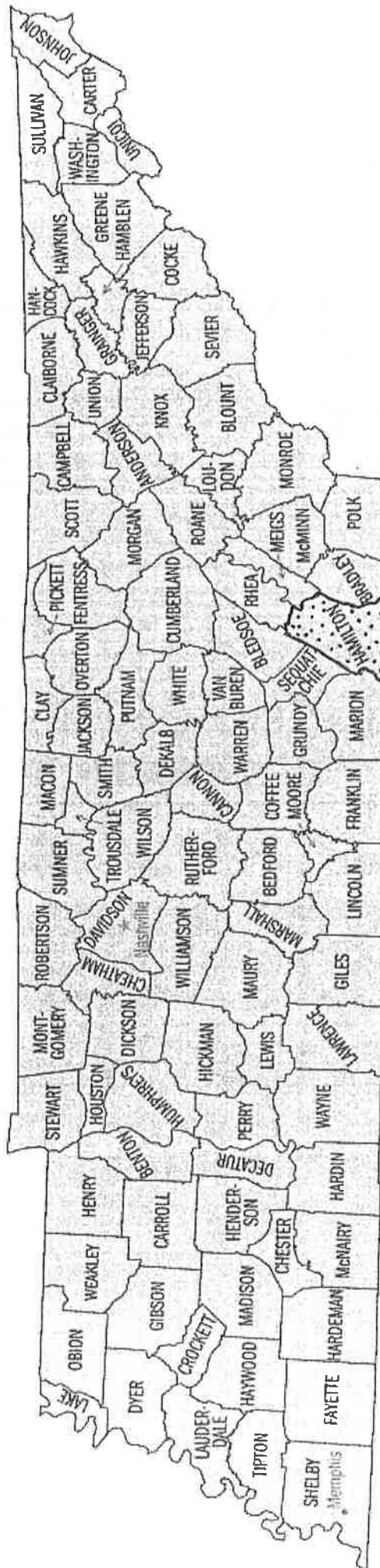
Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
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Tennessee County Map



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Criteria:

State: Tennessee
County: Hamilton County
ID #: All

Results: 22 records found.

Name	ID#	Type	Score	Designation Date	Update Date
Hamilton County					
Hamilton Service Area	93244	MUA	56.43	1982/06/03	1994/05/04
CT 0001.00					
CT 0002.00					
CT 0004.00					
CT 0006.00					
CT 0008.00					
CT 0010.00					
CT 0011.00					
CT 0012.00					
CT 0013.00					
CT 0014.00					
CT 0015.00					
CT 0016.00					
CT 0018.00					
CT 0019.00					
CT 0020.00					
CT 0023.00					
CT 0024.00					
CT 0025.00					
CT 0026.00					
CT 0031.00					
CT 0115.00					

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Find Shortage Areas: HPSA by State & County

[Shortage Designation Home](#)[Find Shortage Areas](#)[HPSA & MUA/P by Address](#)[HPSA Eligible for the Medicare Physician Bonus Payment MUA/P by State & County](#)

Criteria:																														
State: Tennessee			Discipline: Primary Medical Care																											
County: Hamilton County			Metro: All																											
ID: All			Status: Designated																											
Date of Last Update: All Dates			Type: All																											
HPSA Score (lower limit): 0																														
Results: 2 records found.																														
(Satellite sites of Comprehensive Health Centers automatically assume the HPSA score of the affiliated grantee. They are not listed separately.)																														
<table border="1"><thead><tr><th>HPSA Name</th><th>ID</th><th>Type</th><th>FTE</th><th># Short</th><th>Score</th></tr></thead><tbody><tr><td colspan="6">065 - Hamilton County</td></tr><tr><td>Erlanger Health System</td><td>1479994797</td><td>Comprehensive Health Center</td><td>1</td><td>0</td><td>9</td></tr><tr><td>Chattanooga/Hamilton County Health Department</td><td>14799947A4</td><td>Comprehensive Health Center</td><td>1</td><td>0</td><td>9</td></tr></tbody></table>							HPSA Name	ID	Type	FTE	# Short	Score	065 - Hamilton County						Erlanger Health System	1479994797	Comprehensive Health Center	1	0	9	Chattanooga/Hamilton County Health Department	14799947A4	Comprehensive Health Center	1	0	9
HPSA Name	ID	Type	FTE	# Short	Score																									
065 - Hamilton County																														
Erlanger Health System	1479994797	Comprehensive Health Center	1	0	9																									
Chattanooga/Hamilton County Health Department	14799947A4	Comprehensive Health Center	1	0	9																									
NEW SEARCH			MODIFY SEARCH CRITERIA																											

NOTE: On Thursday November 3, 2011, the list of designated HPSAs was updated to reflect the publication of the Federal Register Notice with the list of designated HPSAs as of September 1, 2011. HPSAs that were designated after September 1, 2011 are considered designated even though they are not on the federal register listing; HPSAs that have been placed in "proposed for withdrawal" or "no new data" status since September 1, 2011 will remain in that status until the publication of the next federal register notice. If there are any questions about the status of a particular HPSA or area, we recommend that you contact the state primary care office in your state; a listing can be obtained at <http://bhpr.hrsa.gov/shortage/hpsas/primarycareoffices.html>.

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MEMORANDUM

Stan,

I reviewed the floor plan provided and have the following comments. Please understand these comments are very preliminary and without doing an in depth study of the existing facility the comments are not all inclusive of the scope of work that may be required. The conversion would require an occupancy classification change from residential to institutional and would require a review by the State Health Department Facilities Division who would have jurisdiction over the project.

I attempted to scale the drawing provided so the actual square footage calculations may not be entirely accurate but they should be able to provide a general magnitude for budgeting.

1. The current building plan appears to contain approximately 38,000 sf and contain a total of 38 rooms.
2. 22 of these rooms appear to have a separate living/bedroom area and are approximately 240 sf.
3. Assuming your intention of converting these living room/bedroom type rooms to semi-private would allow for a total of 60 beds.
4. 14 of the rooms appear to be private rooms and have an approximate square footage of 150 sf which is the assumed minimum size required per bed.
5. There appear to be numerous support areas such as clean and soiled utility rooms and medication rooms which will be required for a nursing home classification.
6. There appears to be a kitchen, dining, and activities area which will be required for a nursing home classification, however, it could be assumed that some upgrades could be required in order to elevate the kitchen food service area to a higher classification required of an institutional occupancy.
7. There appear to be adequate areas such as "family rooms" and "activities" areas which could be renovated to provide nursing station/charting type areas which may be required under the nursing home classification.

To:
Stan Burton

From:
Jeff Holmes

Date:
21 May 2012

RE:
Chattanooga Nursing Home Conversion

Project:
Grace Healthcare

Copies To:
Graham Baker

JHOLMES ARCHITECTURE
A 100% Veteran Owned PLLC
938 1ST Ave North
Nashville, TN 37027
615.796.0256 pho

G:\2007042.00\DOCS\2010 Docs\MEMO
project schedule comments 1feb10.docx

MEMORANDUM - Chattanooga Nursing Home Conversion

8. Budget: The below categories of cost make assumptions that may or may not be valid based on the very preliminary assessment conducted. These categories and cost are not all inclusive. A further detailed study of the facility and review by the State Health Department should be conducted in order to adequately assess the required renovation cost.

a. Spinklering of facility	
i. 38k sf @ \$2.50/sf =	\$95,000
b. Conversion of private to semi private rooms	
i. 230 sf/rm x \$20/sf =	\$4,600/rm
ii. \$4,600/rm x 22 rooms =	\$100,000
c. Kitchen upgrade =	\$20,000
d. Smoke Wall separations	\$20,000
Total Possible Cost	\$235,000

Summary: This initial study is preliminary and not intended to be all inclusive of all items and expenses which might be required to renovate the existing facility into a nursing home classification. Further research and analysis of all disciplines to include mechanical, electrical and fire safety should be conducted in order to further define the estimated project cost.



June 14, 2012

Mr. E. Graham Baker, Jr.
Weeks and Anderson
2021 Richard Jones Road; Suite 350
Nashville, TN 37215

Dear Mr. Baker,

Ample funds have been deposited and dedicated to the establishment of up to a 60 bed nursing home, including all renovations, other setup costs, plus operational costs to operate the facility until the nursing home reaches a positive cash flow.

If you should need additional information, please feel free to contact me at 423-238-8618.

Sincerely,

A handwritten signature in dark ink that reads "Michael E. Haskew". The signature is written in a cursive style with a large, prominent "M" and "H".

Michael E. Haskew
President

MEH/khb

Attachment C.OD.3



Total all industries

Chattanooga, TN-GA MSA, Tennessee

Healthcare Practitioners and Technical Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE PRACTITIONERS AND TECHNICAL OCCUPATIONS	29-0000	16,650	60,694	30,901	75,591	36,776	50,103	64,255
			29.18	14.86	36.34	17.68	24.09	30.89
Chiropractors	29-1011		122,628	55,386	156,249	91,393	120,403	160,332
			58.96	26.63	75.12	43.94	57.89	77.08
Dentists, General	29-1021		92,851	77,736	100,409	84,901	92,748	101,151
			44.64	37.37	48.27	40.82	44.59	48.63
Dietitians and Nutritionists	29-1031	110	45,205	28,049	53,783	34,544	43,038	53,804
			21.73	13.49	25.86	16.61	20.69	25.87
Optometrists	29-1041		89,157	71,106	98,182	76,771	93,259	106,118
			42.86	34.19	47.20	36.91	44.84	51.02
Pharmacists	29-1051	580	117,892	99,901	126,887	107,623	118,210	129,934
			56.68	48.03	61.00	51.74	56.83	62.47
Anesthesiologists	29-1061		234,512					
			112.75					
Family and General Practitioners	29-1062	30	166,212	126,805	185,916	142,869	159,023	
			79.91	60.96	89.38	68.69	76.45	
Internists, General	29-1063		194,852			155,488		
			93.68			74.75		
Psychiatrists	29-1066	20	150,070	123,006	163,601	132,494	148,090	166,243
			72.15	59.14	78.65	63.70	71.20	79.92
Surgeons	29-1067	130	233,257					
			112.14					
Physicians and Surgeons, All Other	29-1069	320	212,476			158,003		
			102.15			75.96		
Physician Assistants	29-1071	100	142,222	78,236	174,215	90,847	120,369	
			68.38	37.61	83.76	43.68	57.87	
Registered Nurses	29-1111	6,830	57,579	41,320	65,708	45,627	53,619	61,798
			27.68	19.87	31.59	21.94	25.78	29.71
Audiologists	29-1121	40	74,847	41,057	91,743	48,749	66,039	113,070
			35.98	19.74	44.11	23.44	31.75	54.36
Occupational Therapists	29-1122	330	73,059	58,879	80,149	63,084	72,342	83,765
			35.12	28.31	38.53	30.33	34.78	40.27
Physical Therapists	29-1123	470	79,526	62,617	87,980	65,982	76,224	88,624
			38.23	30.10	42.30	31.72	36.65	42.61
Radiation Therapists	29-1124		64,515	49,699	71,923	52,132	59,842	71,162
			31.02	23.89	34.58	25.06	28.77	34.21
Recreational Therapists	29-1125	20	35,830	29,740	38,875	30,962	35,563	40,250
			17.23	14.30	18.69	14.89	17.10	19.35

Respiratory Therapists	29-1126	230	50,098	40,409	54,942	43,953	50,892	57,078
			24.09	19.43	26.41	21.13	24.47	27.44



Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date June 2010.



Total all industries

Chattanooga, TN-GA MSA, Tennessee

Healthcare Support Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE SUPPORT OCCUPATIONS	31-0000	6,740	26,640	19,112	30,403	20,613	23,970	29,507
			12.81	9.19	14.62	9.91	11.52	14.19
Home Health Aides	31-1011	1,180	22,448	18,019	24,663	19,847	22,640	25,256
			10.79	8.66	11.86	9.54	10.88	12.14
Nursing Aides, Orderlies, and Attendants	31-1012	2,370	22,216	18,121	24,263	19,332	21,952	25,116
			10.68	8.71	11.67	9.29	10.55	12.08
Occupational Therapist Assistants	31-2011	160	53,400	43,465	58,368	44,659	50,306	61,197
			25.67	20.90	28.06	21.47	24.19	29.42
Physical Therapist Assistants	31-2021	360	52,363	39,229	58,930	42,745	49,883	62,391
			25.17	18.86	28.33	20.55	23.98	30.00
Physical Therapist Aides	31-2022		19,971	16,143	21,885	16,806	19,775	22,481
			9.60	7.76	10.52	8.08	9.51	10.81
Massage Therapists	31-9011		23,808	16,174	27,625	17,906	22,957	27,903
			11.45	7.78	13.28	8.61	11.04	13.41
Dental Assistants	31-9091	520	29,675	22,069	33,477	23,255	29,563	34,286
			14.27	10.61	16.09	11.18	14.21	16.48
Medical Assistants	31-9092	1,170	27,485	21,958	30,248	22,839	25,815	30,205
			13.21	10.56	14.54	10.98	12.41	14.52
Medical Equipment Preparers	31-9093	90	27,127	21,350	30,015	23,049	26,616	31,314
			13.04	10.26	14.43	11.08	12.80	15.06
Medical Transcriptionists	31-9094	250	32,177	27,572	34,479	28,309	32,059	36,768
			15.47	13.26	16.58	13.61	15.41	17.68
Veterinary Assistants and Laboratory Animal Caretakers	31-9096		18,598	15,013	20,391	14,867	15,983	19,563
			8.94	7.22	9.80	7.15	7.68	9.41
Healthcare Support Workers, All Other	31-9099	120	26,422	18,589	30,339	20,213	25,278	31,046
			12.70	8.94	14.59	9.72	12.15	14.93



Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date June 2010.

COPY

SUPPLEMENTAL-1

**Shallowford Healthcare,
LLC**

CN1206-028

SUPPLEMENTAL

AFFIDAVIT

2012 JUN 25 AM 11: 32

STATE OF TENNESSEE
COUNTY OF WILLIAMSON

NAME OF FACILITY: Shallowford Healthcare, LLC (CN1206-028)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 25th day of June, 2012; witness my hand at office in the County of Williamson, State of Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC

My Commission expires May 6, 2013



SUPPLEMENTAL

1. Section A, Applicant Profile, Item 4.

Please provide a copy of Shallowford Healthcare's Articles of Organization.

Response: Please see *Attachment Supplemental A.4, page 2*. Note that when the Articles of Organization were originally filed, an allowance was made to have 2 members. It was decided to have only one member, and that one member remains the sole equity member of the company.

2. Section A, Applicant Profile, Item 5.

Please identify the members of Sunland Associates, LLC and each member's percentage of ownership.

Response: Byron DeFoor – 100%. Also please see *Supplemental A.5.Financials* for the financials of Grace Healthcare, LLC.

3. Section A, Applicant Profile, Item 6.

Please provide documentation of Veranda Property Investment, LLC ownership of the property.

The term of the lease indicates that it will commence on January 1, 2018.

The submitted lease is not fully executed (no signatures for lessor or lessee). Please provide a fully executed lease agreement or an Option to Lease that identifies the expected term of the agreement and expected payments.

Response: Please see *Attachment Supplemental.A.6.Deed*.

Veranda Property Investment, LLC is owned as follows:

Byron DeFoor – 70%
Valor, LLC – 20% (Valor, LLC is owned 100% by Kenneth DeFoor)
Ansley Blake DeFoor – 10%

The lease begins on January 1, 2013. Please see *Supplemental Attachment A.6*, which is an executed lease agreement.

SUPPLEMENTAL

4. Section A, Applicant Profile, Item 13

Please explain how the applicant will serve TennCare Select patients through a contract with BCBS of TN.

Response: Shallowford Healthcare will serve BCBS of TN residents through the Medicaid CHOICES program.

SUPPLEMENTAL

5. Section B, Project Description, Item I.

Since this facility has not previously operated as a nursing home, will this facility be consistent with AIA guidelines for nursing facilities and will the facility be fully sprinkled?

Have all these required costs been included in the Project Costs Chart?

The mix of private and semi-private beds for a 60 bed facility is noted. What will be the mix of private and semi-private rooms for these 30 beds?

If either this application or the one to follow be denied, will the applicant consider operating a 30 bed nursing home?

Response: Yes. Shallowford Healthcare will meet all necessary guidelines to operate as a skilled nursing facility. For example, the facility has a fully functioning sprinkler system.

All necessary costs to meet guidelines have been included on the Project Costs Chart.

If the proposed 30 bed facility operated at full capacity, the mix for a 30 bed facility would be 22 patients in semi-private rooms, and 8 patients in private rooms.

Shallowford Healthcare will consider operating with 30 beds. The 30 bed floor plan would be one half of the facility.

6. Section B, Project Description, Item IV (Floor Plan)

Recent nursing home applications have demonstrated a trend of increasing private resident rooms. Please explain why the applicant has chosen to propose a mix of 22 semi-private rooms and 16 private rooms.

Response: The semi-private rooms in the facility are not the typical semi-private skilled nursing facility rooms. Unlike traditional semi-private rooms, these rooms are partitioned. The occupants share a bathroom that includes a shower.

In addition, there is an additional piece of vacant land next to the facility that could be used for future expansion if it was determined during operation of the facility that additional private rooms were necessary.

SUPPLEMENTAL

7. Section C, Need, Item 1.a. (Service Specific Criteria (Nursing Home Services) B. Occupancy and Size Standards 1.

When and how does the applicant facility expect to attain 90% occupancy?

Response: Shallowford Healthcare is projecting to meet 90% occupancy in May 2012.

Shallowford Healthcare is in close proximity to several ALF and senior housing developments with a growing population. We believe that we will meet our census projections based on the growing need for orthopedic rehabilitation in the area for the elderly where they can be close to their returning home and family members.

Shallowford Healthcare will have an effective marketing campaign with a nurse liaison that will highlight our modern, fully equipped rehabilitation facility. Shallowford Healthcare offers a convenient location to several orthopedic doctors' offices for convenient contracting with both the doctor and the hospital.

SUPPLEMENTAL

8. Section C, Need, Item 1.a. (Service Specific Criteria (Nursing Home Services) B. Occupancy and Size Standards 2.

Please identify individually the 50 bed or more nursing homes in the service area that did not attain 95% occupancy in 2010.

Response: *Supplemental Attachment B.II.A* shows that the following nursing homes with 50+ beds did not attain 95% occupancy in 2010:

Alexian Village Health and Rehabilitation Center	114 beds	87.8%
Consulate Health Care of Chattanooga	127 beds	94.8%
The Health Center at Standifer Place	474 beds	84.9%
Life Care Center of Missionary Ridge	78 beds	77.6%
NHC Healthcare, Chattanooga	207 beds	90.0%
Saint Barnabas Nursing Home	108 beds	88.3%
Life Care Center of East Ridge	160 beds	71.4%
Life Care Center of Collegedale	124beds	93.6%
Life Care Center of Red Bank	148 beds	94.0%

Note that the original attachment showed Soddy Daisy not meeting 95% occupancy in 2008 and 2010. Upon further review, the Applicant found out that incorrect information was submitted on both the 2008 and the 2010 JAR. This has been corrected, as has the original attachment. Please see *Supplemental Attachment B.II.A*.

9. Section C, Need, Item 4.A

2012 JUN 25 AM 11: 32

Your response to this item is noted. Please complete the following chart. All the information requested can be obtained from the Department of Health population projections, TennCare website, and US Census website.

Demographic /Geographic Area	Hamilton County	State of TN
Total Population-Current Year -2012		
Total Population-Projected Year -2014		
Total Population-% change		
Age 65+ Population – 2012		
Age 65+ Population – 2014		
Age 65+ Population - % change		
Age 65+ Population as % of Total Population		
TennCare Enrollees		
TennCare Enrollees as % of Total Population		
Median Age		
Median Household Income		
Persons Below Poverty Level		
Persons Below Poverty Level as % of Total Population		

Response:

Demographic /Geographic Area	Hamilton County	State of TN
Total Population-Current Year -2012	318,632	6,361,070
Total Population-Projected Year -2014	320,713	6,470,546
Total Population-% change	0.6%	1.7%
Age 65+ Population – 2012	49,640	878,496
Age 65+ Population – 2014	52,546	931,676
Age 65+ Population - % change	5.9%	6.1%
Age 65+ Population as % of Total Population (2014)	16.4%	14.4%
TennCare Enrollees (2011)	55,331	1,209,372
TennCare Enrollees as % of Total Population (2012)	* 17.3%	* 18.7%
Median Age (2010)	39.3	38
Median Household Income (2010)	45,408	43,314
Persons Below Poverty Level (2010)	6,675	7,147
Persons Below Poverty Level as % of Total Population (2010)	14.7%	16.5%

* 2011 TennCare Enrollees divided by 2012 Pop.

SUPPLEMENTAL

10. Section C., Need, Item 5

Your response is noted. Please complete the following tables:

Hamilton County Nursing Home Utilization-2010

Facility	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicare	Licensed Only Beds Non-Certified	SNF Medicare ADC	SNF Medicare ADC	SNF All other Payors ADC	NF ADC	Total ADC
TOTAL										

Hamilton County Nursing Home Utilization Trends-2008-2010

Facility	Licensed Beds	2008 Patient Days	2009 Patient Days	2010 Patient Days	'08-'10 % change	2008 % Occupancy	2009 % Occupancy	2010 % Occupancy
TOTAL								

Response:

Hamilton County Nursing Home Utilization-2010

Facility	Beds					ADC				
	Total	SNF-M'Care	SNF/NF-DC	NF M'caid	Non-C	SNF M'care	SNF M'caid	SNF Other	NF	Total
Alexian Village	114	114	0	0	0	14.9	0.0	0.0	85.3	100.1
Consulate Health	127	0	127	0	0	16.2	4.0	0.0	100.2	120.4
Standifer Place	474	0	304	170	0	30.2	86.5	18.5	267.2	402.4
Life Care - Missionary Ridge	78	0	78	0	0	9.0	0.0	1.9	49.6	60.5
NHC - Chattanooga	207	0	145	62	0	21.7	42.4	56.9	65.3	186.2
Saint Barnabas	108	0	108	0	0	24.2	4.1	2.4	64.7	95.3
Life Care - East Ridge	160	160	0	0	0	81.0	0.0	7.3	26.0	114.3
Life Care,- Collegedale	124	0	124	0	0	32.3	0.0	1.5	82.3	116.1
Life Care - Red Bank	148	0	148	0	0	36.4	0.0	2.6	100.2	139.2
Life Care - Chattanooga	153	*	*	*	*	*	*	*	*	*
Soddy Daisy	120	0	120	0	0	26.2	0.5	0.0	75.0	101.7
Siskin Hospital Rehab	29	29	0	0	0	23.9	0.0	1.4	0.0	25.3
TOTAL	1,842	303	1,154	232	0	315.9	137.0	92.4	915.7	1461.5

* Not in Business in 2010

Some Figures are rounded

SUPPLEMENTAL

Hamilton County Nursing Home Utilization Trends-2008-2010

Facility	Beds	Pt days '08	Pt days '09	Pt days '10	% Chg '08-'10	Occ. '08	Occ. '09	Occ. '10
Alexian Village Health & Rehabilitation Ctr	114	35,613	36,047	36,546	2.6%	85.6%	86.6%	87.8%
Consulate Health Care of Chattanooga	127	42,958	42,277	43,953	2.3%	92.7%	91.2%	94.8%
The Health Center at Standifer place	474	149,383	143,319	146,871	-1.7%	86.3%	82.8%	84.9%
Life Care Center of Missionary Ridge	78	24,644	25,399	22,082	-10.4%	86.6%	89.2%	77.6%
NHC Healthcare, Chattanooga	207	68,799	69,385	67,963	-1.2%	91.1%	91.8%	90.0%
Saint Barnabas Nursing home	108	33,749	33,643	34,791	3.1%	85.6%	85.3%	88.3%
Life Care Center of East Ridge	160	41,640	40,621	41,710	0.2%	71.3%	69.6%	71.4%
Life Care Center of Collegedale	124	43,097	42,588	42,374	-1.7%	95.2%	94.1%	93.6%
Life Care Center of Red Bank	148	51,167	50,454	50,803	-0.7%	94.7%	93.4%	94.0%
Life Care Center of Chattanooga	153	42,932	27,841	*		76.9%	49.9%	*
Soddy Daisy Healthcare Center	120	41,751	42,241	41,916	0.4%	95.3%	96.4%	95.7%
Siskin Hospital's Subacute Rehab program	29	6,726	8,839	9,238	37.3%	63.5%	83.5%	87.3%
TOTAL	1,842	582,459	562,654	538,247	-7.6%	86.6%	83.7%	80.1%

* Not in Business 2010

It is important to note that (geographically) the Applicant's main competitors in Hamilton County will be Consulate Health Care Center of Chattanooga, The Health Center at Standifer Place, and Life Care Center of Collegedale. Accordingly, the entries for these three facilities are in bold print.

SUPPLEMENTAL

11. Section C, Need, Item 6

Your response to this item is noted.

Please complete the following table:

Shallowford Healthcare Projected Utilization

Year	Licensed Beds	*Medicare-certified beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed Occupancy %
1	60	60	28	5	3		36	60%
2	60	60	40	8	4		52	87%

* Includes dually-certified beds

Please provide the details regarding the methodology used to project 8,010 patient days during the first year of operation and 10,220 patient days during the second year of operation. The methodology must include detailed calculations or documentation from referral sources. Providing only statements such as "based on the applicant's experience" will not be considered an adequate response.

The applicant indicates that all patient days will be Level II days. What will happen to Medicaid patients who no longer require care to justify Level II reimbursement?

Response: The lower occupancy in year one is to account for the period of time it will take for the facility to become Medicare certified and for the census to build.

According to data from the US Census Bureau, 4.5% of the population over the age of 65 lives in nursing homes. Based on the occupancy numbers and population number provided in the answers above, Hamilton County is serving only 2.97% of the population over 65 in nursing homes. Serving an additional 10,220 patient days per year will increase this percentage to 3.03%, still far below the average reported by the US Census Bureau. Based on Grace Healthcare's experience of managing forty nursing homes across the US with one in the Chattanooga area, Shallowford Healthcare is confident that servicing a projected growing population of 0.056% of the population over the age of 65 in the Hamilton County area is a fair projection.

Shallowford Healthcare will provide only skilled nursing care, and will enter into a transfer agreement with a Level I Medicaid provider. At the point when a resident requires NF care, arrangements will be made to transfer the resident to a Level I SNF.

12. Section C. Economic Feasibility Item 1 (Project Cost Chart)

The memorandum from Holmes Architecture is noted. The memorandum suggests that the \$235,000 cost to renovate the facility does not include costs for mechanical, electrical, and fire safety and does not state that the cost to construct the project will provide a physical environment, according to applicable federal, state and local construction codes, standards, specifications, and requirements. Where have the costs for these items been included in the Project Costs Chart?

The architect makes general statements about the facility but does not attest that the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the new 2006 AIA Guidelines for Design and Construction of Hospital and Health Care Facilities.

Please provide a revised letter that addresses these items.

Response: The property was built in 1998 as an ALF and has been operated as a healthcare facility. There is no additional construction involved in ensuring the facility meets nursing home standards -- only what was mentioned in the architect's letter. There will be minimal cost renovations completed to meet skilled nursing facility standards. Any architectural standards were already met when the facility was constructed.

The architect was not asked to inspect mechanical, electrical and fire safety due to the fact that the facility is already licensed as a health care facility and these areas of the facility already comply with nursing home standards. For example, the facility is fully sprinkled.

13. Section C, Economic Feasibility, Item 2

The letter from the Community Trust & Banking Company is noted; however it does not identify the owner of the referenced bank accounts nor identifies the amount of funds available in the accounts to fund the proposed project.

Please provide a revised letter that addresses these items.

Response: Byron DeFoor's Farmer's Bank bank statement has been provided in response to this question. Please see *Attachment Supplemental C.EF.2*, which includes both the original statement dated in April, 2012, and a second printed sheet from the bank showing that as of 06/11/2012, the account is still intact – in fact, with even more funds available. These funds are set aside and committed to this project, as stated in the application.

Please note that Byron DeFoor's business address is the same as Grace Healthcare. This is NOT a Grace Healthcare account. It is, as stated, Byron DeFoor's account.

14. Section C, Economic Feasibility, Item 4 (Projected Data Chart)

The HSDA is utilizing more detailed Historical and Projected Data Charts. Please complete the revised information Projected Data Chart provided as an attachment. Please note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should also include any management fees paid by agreement to third party entities not having common ownership with the applicant. Management fees should not include expense allocations for support services, e.g., finance, human resources, information technology, legal, managed care, planning marketing, quality assurance, etc. that have been consolidated/centralized for the subsidiaries of a parent company.

The \$381,486.53 NET OPERATING INCOME (LOSS) displayed in the Year 1 Column should be displayed as a loss.

Response: Please see replacement pages 36, 37, 38, and 39.

SUPPLEMENTAL

15. Section C, Economic Feasibility, Item 6.B.

2012 JUN 25 AM 11: 33

Other than Siskin the applicant's proposed charges are significantly higher than the charges reported from the 2010 JAR. Please discuss why the applicant's proposed charges are so much higher than most other area providers.

Response: Shallowford Healthcare has projected the daily reimbursement rates to be \$180/day for Private Pay Room & Board, \$420/day for Medicare all inclusive per Medicare guidelines, and \$150/day for Skilled Medicaid all inclusive per Medicaid guidelines. Any charges included other than these daily rates are included in the contractual portion of the chart.

When comparing Shallowford Healthcare to competitors, Siskin would be the best comparison due to the comparable Medicare case mix.

The provision of only skilled care results in much higher costs and charges. The Siskin facility is closer than other facilities to providing the care we envision at Shallowford Healthcare, LLC.

SUPPLEMENTAL

16. Section C, Economic Feasibility, Item 9

As was noted earlier it is unclear how the applicant expects to serve only skilled patients as some Medicaid patients will at some point in their stay only require NF care. Please discuss.

Response: Shallowford Healthcare will provide only skilled nursing care, and will enter into a transfer agreement with a Level I Medicaid provider. At the point when a resident requires NF care, arrangements will be made to transfer the resident to a Level I SNF.

17. Section C, Orderly Development, Item 3

Does the applicant plan to hire or contract therapy personnel, i.e., physical therapy, occupational therapy, and speech therapy? What are the expected FTE requirements for therapy personnel? Does the applicant expect to hire or contract for other positions such as social worker, activities director, and any other patient related positions?

Response: Shallowford Healthcare will contract with a related party therapy company who will staff therapists according to census and rehabilitation needs. The related party therapy company currently provides therapy services to twenty Tennessee nursing homes.

Shallowford Healthcare will hire for social worker, activities director and other related positions.

This has been accounted for in our Projected Data Charts.

SUPPLEMENTAL

18. Project Completion Chart

Since this application will not be heard any sooner than September 2012, please make the appropriate adjustments and submit a revised Project Completion Forecast Chart.

Response: See replacement page 58.

GRACE HEALTHCARE, LLC
CHATTANOOGA, TENNESSEE

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2011 AND 2010 AND
REPORT OF INDEPENDENT ACCOUNTANTS

GRACE HEALTHCARE, LLC
BALANCE SHEETS
DECEMBER 31

2012 JUN 25 AM 11: 31

ASSETS

	2011	2010
Current Assets		
Cash	\$ 1,316,638	\$ 548,954
Prepaid Expenses and Other Assets	66,249	59,069
	<u>1,382,887</u>	<u>608,023</u>
Equipment		
Leasehold Improvements	13,875	-
Computer Equipment	162,538	162,538
Office Furniture	70,282	52,958
Vehicles	153,776	40,143
	<u>400,471</u>	<u>255,639</u>
Accumulated Depreciation	(200,328)	(173,577)
	<u>200,143</u>	<u>82,062</u>
Related Receivables, Net of Allowance of \$1,500,000	<u>7,339,093</u>	<u>12,969,933</u>
Other Assets		
Deposits	39,012	36,436
Assets Limited as to Use - Escrow	1,000,000	-
Assets Limited as to Use - Note Receivable	2,000,000	-
	<u>3,039,012</u>	<u>36,436</u>
Total Assets	<u>\$ 11,961,135</u>	<u>\$ 13,696,454</u>

See accompanying notes which are an integral part of these financial statements.

GRACE HEALTHCARE, LLC
BALANCE SHEETS
DECEMBER 31

SUPPLEMENTAL

2012 JUN 25 AM 11:31

LIABILITIES AND MEMBERS' EQUITY

	2011	2010
Current Liabilities		
Current Maturities of Long-Term Debt - Related Party	\$ 693,294	\$ 1,282,500
Current Maturities of Long-Term Debt - Nonrelated Party	1,097,834	1,464,473
Accounts Payable	245,398	299,997
Accrued Expenses	323,669	502,238
	<u>2,360,195</u>	<u>3,549,208</u>
 Long-Term Debt		
Related Party	-	1,234,398
Nonrelated Party	4,840,061	3,490,456
	<u>4,840,061</u>	<u>4,724,854</u>
 Members' Equity	<u>4,760,879</u>	<u>5,422,392</u>
 Total Liabilities and Members' Equity	<u><u>\$ 11,961,135</u></u>	<u><u>\$ 13,696,454</u></u>

See accompanying notes which are an integral part of these financial statements.

GRACE HEALTHCARE, LLC
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

SUPPLEMENTAL

2017 JUN 25 AM 11:31

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Management Fees, Net	\$ 10,810,947	\$ 11,004,342
Other Operating Income	-	27,261
	<u>10,810,947</u>	<u>11,031,603</u>
Operating Expenses		
Salaries and Wages	5,978,003	6,158,223
Payroll Taxes and Employee Benefits	1,410,550	986,137
Travel and Training	981,066	895,407
Rental	240,000	239,916
Contract Labor	-	11,901
Insurance	43,417	19,973
Telephone and Utilities	141,613	365,796
Administrative and General	392,196	318,585
Interest	262,532	235,434
Professional	463,794	97,123
Depreciation and Amortization	26,751	41,092
Taxes	151,179	43,990
Loan Guaranty Fees	50,000	50,000
Other	13,541	33,913
	<u>10,154,642</u>	<u>9,497,490</u>
Operating Income	656,305	1,534,113
Interest Income	-	19,610
Net Income	<u>\$ 656,305</u>	<u>\$ 1,553,723</u>

See accompanying notes which are an integral part of these financial statements.

Nursing Home Bed Utilization for Service Area 2008-2010

2008	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	85.6%	0.0%	84.3%	15.7%	35,613	254
330232	Consulate Health Care of Chattanooga	Hamilton	127	92.7%	0.0%	85.3%	14.7%	42,958	322
330332	The Health Center at Standifer place	Hamilton	474	86.3%	65.8%	40.7%	59.3%	149,383	1,103
330432	Life Care Center of Missionary Ridge	Hamilton	78	86.6%	76.2%	77.8%	22.2%	24,644	174
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.1%	54.6%	43.9%	56.1%	68,799	444
330832	Saint Barnabas Nursing home	Hamilton	108	85.6%	44.0%	60.4%	39.6%	33,749	367
330932	Life Care Center of East Ridge	Hamilton	160	71.3%	0.0%	34.7%	65.3%	41,640	931
331032	Life Care Center of Collegedale	Hamilton	124	95.2%	0.0%	49.9%	50.1%	43,097	320
331432	Life Care Center of Red Bank	Hamilton	148	94.7%	49.5%	18.7%	81.3%	51,167	529
332032	Life Care Center of Chattanooga	Hamilton	153	76.9%	0.0%	61.9%	38.1%	42,932	523
332232	Soddy Daisy Healthcare Center	Hamilton	120	95.3%	58.6%	67.9%	26.5%	41,751	272
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	63.5%	0.0%	0.0%	100.0%	6,726	570
TOTAL			1,842	86.6%				582,459	

Supplemental Attachment B.II.A SUPPLEMENTAL

2009	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	86.6%	0.0%	88.2%	11.8%	36,047	287
330232	Consulate Health Care of Chattanooga	Hamilton	127	91.2%	0.0%	81.8%	18.2%	42,277	256
330332	The Health Center at Standifer place	Hamilton	474	82.8%	66.7%	65.6%	34.4%	143,319	895
330432	Life Care Center of Missionary Ridge	Hamilton	78	89.2%	80.2%	83.6%	16.4%	25,399	137
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.8%	56.3%	59.8%	40.2%	69,385	424
330832	Saint Barnabas Nursing home	Hamilton	108	85.3%	50.0%	68.4%	31.6%	33,643	299
330932	Life Care Center of East Ridge	Hamilton	160	69.6%	0.0%	28.2%	71.8%	40,621	934
331032	Life Care Center of Collegedale	Hamilton	124	94.1%	51.9%	69.5%	30.5%	42,588	469
331432	Life Care Center of Red Bank	Hamilton	148	93.4%	48.6%	70.3%	29.7%	50,454	407
332032	Life Care Center of Chattanooga	Hamilton	153	49.9%	70.0%	68.0%	32.0%	27,841	293
332232	Soddy Daisy Healthcare Center	Hamilton	120	96.4%	51.2%	69.0%	31.0%	42,241	346
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	83.5%	0.0%	0.0%	100.0%	8,839	695
TOTAL			1,842	83.7%				562,654	

Nursing Home Bed Utilization for Service Area 2008-2010

2010	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	87.8%	0.0%	85.2%	14.8%	36,546	323
330232	Consulate Health Care of Chattanooga	Hamilton	127	94.8%	0.0%	83.2%	16.8%	43,953	225
330332	The Health Center at Standifer place	Hamilton	474	84.9%	70.6%	66.4%	33.6%	146,871	964
330432	Life Care Center of Missionary Ridge	Hamilton	78	77.6%	81.5%	82.0%	18.0%	22,082	159
330732	NHC Healthcare, Chattanooga	Hamilton	207	90.0%	30.1%	35.0%	65.0%	67,963	429
330832	Saint Barnabas Nursing home	Hamilton	108	88.3%	51.8%	67.9%	32.1%	34,791	262
330932	Life Care Center of East Ridge	Hamilton	160	71.4%	0.0%	22.7%	77.3%	41,710	991
331032	Life Care Center of Collegedale	Hamilton	124	93.6%	32.4%	70.9%	29.1%	42,374	454
331432	Life Care Center of Red Bank	Hamilton	148	94.0%	53.9%	72.0%	28.0%	50,803	395
332232	Soddy Daisy Healthcare Center	Hamilton	120	95.7%	28.6%	65.3%	23.3%	41,916	173
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	87.3%	0.0%	0.0%	100.0%	9,238	749
	TOTAL		1,689	87.3%				538,247	

Source: 2008, 2009 & 2010 JAR Schedule E - Beds (Licensed) & Schedule F-Utilization - Part 1 (Level of Care in the Facility) & Part 2 (Resident Days of Care)

Note: Life Care Center of Chattanooga no longer in business in 2010; constructing a 120 bed replacement facility

2012 JUN 25 AM 11:11
SUPPLEMENTAL



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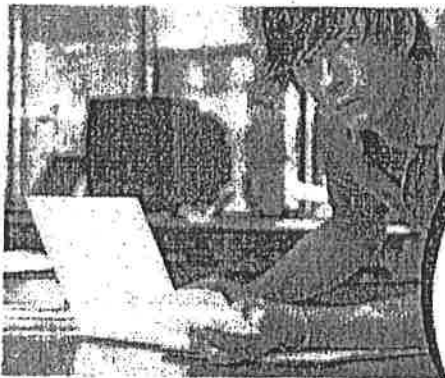
Supplemental Attachment C.EF.2

2 26FDP 9739A0X.002 FBTR: 0002411

Member
FDIC

SUPPLEMENTAL	
Account Number	40057952
Statement Date	4/09/12
Statement Period	3/13/12 to 4/09/12
Days in Period	28
Page	1 of 1

2379 1 MB 0.401 *0002411 51
Byron Defoor
Grace Healthcare
7201 Shallowford Rd Ste 100
Chattanooga TN 37421-2782



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Blue Chip Money Market			
Beginning Balance	861,375.88	Account Number	40057952
0 Deposits/Credits	.00	Avg Ledger Balance	861,375
0 Checks/Debits	.00	Avg Collected Balance	861,375
0 Electronic Debits	.00	Interest Earned	528.63
Service Charge	.00	Annual Percentage Yield Earned	0.80%
Interest Paid	528.63	2012 Interest Paid	2,955.80
Ending Balance	861,904.51		

ACCOUNT ACTIVITY			
Date	Description	Amount	Balance
4/09	INTEREST PAID 28. DAYS	528.63	861,904.51

Interest Rate Summary Information			
Date	Interest Rate	Date	Interest Rate
3/12	.80%		

8021



SUPPLEMENTAL

Date 6/11/12 Page 1
 Primary Account 40057952
 Enclosures

37421854112

Byron Defoor
 Grace Healthcare
 7201 Shallowford Road
 Chattanooga TN 37421-8541

CHECKING ACCOUNT

Blue Chip Money Market		Image Statement	0
Account Number	40057952	Statement Dates	5/15/12 thru 6/11/12
Beginning Balance	862,565.70	Days In The Statement Period	28
Deposits/Credits	.00	Avg Ledger Balance	862,565
Checks/Debits	.00	Avg Collected Balance	862,565
Electronic DR	.00		
Service Charge	.00	Interest Earned	529.35
Interest Paid	529.35	Annual Percentage Yield Earned	0.80%
Ending Balance	863,095.05	2012 Interest Paid	4,146.34

DESCRIPTIVE ACTIVITY

Date..Description	Reference	Amount	Balance
6/11 INTEREST PAID 28 DAYS		529.35	863,095.05

INTEREST RATE SUMMARY INFORMATION

Date.....	Interest Rate
5/14	.80%

*** END OF STATEMENT ***

COPY

SUPPLEMENTAL-2

**Shallowford Healthare,
LLC**

CN1206-028

SUPPLEMENTAL

1. Section A, Applicant Profile, Item 13

Your response to this item is noted but still unclear. There are three TennCare MCOs in East Tennessee: UnitedHealthcare Community Plan, BlueCare, and TennCare Select. Please identify with which MCOs the applicant intends to contract.

Response: Shallowford Healthcare will contract with UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

2. Section C, Need, Item 6

The applicant has stated that “Shallowford Healthcare will provide only skilled nursing care and will enter a transfer agreement with a Level I Medicaid provider. At the point when a resident requires NF care, arrangements will be made to transfer the resident to a Level I SNF.” Won’t this policy be in direct conflict of the Linton ruling? Please discuss.

Response: This issue involves what the Applicant plans to do with a Medicaid Skilled patient who no longer requires skilled care, but requires NF care. When this question was first posed, the Applicant’s immediate response to “...transfer the resident...” to a Level I provider. This response was based on the fact that, as a licensed skilled provider, we would have no authority to provide a level of care for which we were not certified and/or licensed. The beds we request are skilled beds; our first reaction to the question was that if we are restricted to skilled care, we can’t provide anything else. For example, if a skilled patient needed surgery, we would assist that patient in finding a suitable provider; we aren’t certified and/or licensed to provide that in our skilled facility.

But upon reflection and further research, the answer to this question is extremely complicated. The Applicant’s attorney spent considerable time discussing this issue with representatives of the nursing home trade association (THCA), TennCare, and TDOH Licensure. While we do not speak for or claim to represent the positions of these organizations, we came away from these discussions with the following perceptions:

1. THCA appears to believe that distinctions between a Medicaid skilled bed and a Medicaid nursing facility bed are dubious, at best. In other words, a bed is a bed is a bed. If you are certified to accept Medicaid patients, it matters not if that patient is a skilled patient or a formerly-skilled patient who now needs NF care – you have to keep that patient (due to the Linton Rule).
2. The TennCare representative appeared to “side” with the THCA position – that a bed is a bed is a bed – and that the skilled facility should continue to provide care to a patient who now needs NF care, and to transfer that patient might trigger Linton Rule problems.
3. The Executive Director of Licensure appeared to say that the issue is complicated, because nursing facilities that provide skilled care have one provider number, and a different provider number for nursing facility care – thereby implying there is a difference between the two levels and those differences should be recognized by the facility. With that said, she agreed that the Linton Rule poses a problem that needs to be addressed.

With all of that said, all parties to which we spoke agreed that this is a complicated set of circumstances that need to be clarified, and there currently exists no clear answer. However, it appeared that the safer route, until the issued is resolved, would be to continue providing care to such a patient.

Shallowford Healthcare will not knowingly or intentionally violate any laws, rules, regulations or court directions. We will heed the advice of the people to which we spoke, and continue to provide care to an admitted skilled patient who eventually requires only NF care.

And in so doing, if the challenge is made by any governmental authority or other health care provider that we are providing care for which we were not approved, we trust that the same people who advised us in this complicated issue will assist us in its resolution.

AFFIDAVIT

2012 JUN 28 AM 9: 52

STATE OF TENNESSEE
COUNTY OF WILLIAMSON

NAME OF FACILITY: Shallowford Healthcare, LLC (CN1206-028)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 28th day of June, 2012;
witness my hand at office in the County of Williamson, State of Tennessee.

NOTARY PUBLIC

My Commission expires May 6, 2013



Copy

Supplemental #3

Shallowford Healthcare, LLC

CN1206 -028

AFFIDAVIT

SUPPLEMENTAL

STATE OF TENNESSEE
COUNTY OF WILLIAMSON

2012 JUL 10 PM 3 16

NAME OF FACILITY: Shallowford Healthcare, LLC

(CN1206-028)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 10th day of July, 2012; witness my hand at office in the County of Williamson, State of Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC

My Commission expires May 6, 2015



1. Section C, Need, Item 6 and Section C, Economic Feasibility, Item 4 (Projected Data Chart)

Your response to this item is noted. Since the applicant plans to continue to provide care to skilled patients who eventually require only NF care, the applicant should consider submitting revised utilization projections and a revised Projected Data Chart to reflect NF patient days and NF reduced reimbursement. Please discuss and submit revised replacement pages as appropriate.

Response: This question involves the procedures to be followed by the Applicant when it has a Medicaid Skilled patient who no longer requires skilled care, but requires NF care. When this question was first posed, the Applicant's immediate response was to "...transfer the resident..." to a Level I provider. This response was based on the fact that, as a licensed skilled provider, we would have no authority to provide a level of care for which we were not certified and/or licensed. The beds we request are skilled beds; our first reaction to the question was that if we are restricted to skilled care, we can't provide anything else. For example, if a skilled patient needed surgery, we would assist that patient in finding a suitable provider; we aren't certified and/or licensed to provide that in our skilled facility.

But upon reflection and further research, the resolution of this issue is extremely complicated. The Applicant's attorney spent considerable time discussing this with representatives of the nursing home trade association (THCA), TennCare, and TDOH Licensure. While we do not speak for or claim to represent the positions of these organizations, we came away from these discussions with the following perceptions:

1. THCA appears to believe that distinctions between a Medicaid skilled bed and a Medicaid nursing facility bed are dubious, at best. In other words, a bed is a bed is a bed. If you are certified to accept Medicaid patients, it matters not if that patient is a skilled patient or a formerly-skilled patient who now needs NF care – you have to keep that patient (due to the Linton Rule).
2. The TennCare representative appeared to "side" with the THCA position – that a bed is a bed is a bed – and that the skilled facility should continue to provide care to a patient who now needs NF care, and to transfer that patient might trigger Linton Rule problems.
3. The Executive Director of Licensure appeared to say that the issue is complicated, because nursing facilities that provide skilled care have one provider number, and a different provider number for nursing facility care – thereby implying there is a difference between the two levels and those differences should be recognized by the facility. With that said, she agreed that the Linton Rule poses a problem that needs to be addressed.

With all of that said, all parties to which we spoke agreed that this is a complicated set of circumstances that need to be clarified, and there currently exists no clear answer. However, it appeared that the safer route, until the issued is resolved, would be to continue providing NF care to such a patient.

The Applicant may not have so much of a problem with this as originally anticipated by HSDA staff. First, our marketing strategy for the entire facility is to target short-term rehab residents who intend to, and have a high potential of, returning home. All nursing facilities conduct pre-admission evaluations ("PAEs"). As a consequence, a PAE of patients referred to us would be done to determine rehab potential and overall ability to return home. Second, most Medicare residents reach their full rehab potential and return home before their 100 days of available

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skilled care has expired. Third, our PAEs of potential residents prior to admission to the facility will result in a high majority of the residents returning to their home. Finally, we will be admitting a significant number of residents who may have Medicare as a secondary payer, but most of those residents will be discharged to their respective homes or to a community-based program before exhausting their Medicare benefit. Our clinical programs will be focused toward rehab. Therefore, our admissions philosophy will match our clinical specialty. As a result, the Projected Data Chart is accurate as submitted.

Shallowford Healthcare will not knowingly or intentionally violate any laws, rules, regulations or court directions. We will heed the advice of the people to which we spoke, including HSDA representatives, and continue to provide care to an admitted skilled patient who eventually requires only NF care.

And in so doing, if the challenge is made by any governmental authority or other health care provider that we are providing care for which we were not approved, we trust that the same people who advised us in this complicated issue will assist us in its resolution.

Copy

Supplemental #4

Shallowford Healthcare, LLC

CN1206 -028

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
NOVEMBER 14, 2012
APPLICATION SUMMARY**

NAME OF PROJECT: Shallowford Healthcare, LLC

PROJECT NUMBER: CN1206-028

ADDRESS: 7429 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

LEGAL OWNER: Byron DeFoor
7201 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

OPERATING ENTITY: Grace Healthcare, LLC
7201 Shallowford Road, Suite 200
Chattanooga, (Hamilton County), Tennessee 37421

CONTACT PERSON: E. Graham Baker, Jr.
(615) 370-3380

DATE FILED: June 14, 2012

PROJECT COST: \$4,631,397.25

FINANCING: Cash Reserves

REASON FOR FILING: The establishment of a 30 bed skilled nursing home, in which all beds will be dually certified for Medicare and Medicaid. *The 30 nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2011 to June 2012 state fiscal year period.*

DESCRIPTION:

Shallowford Healthcare, LLC is seeking approval to establish a 30 bed skilled nursing facility in which all beds will be dually certified for Medicare and Medicaid at 7429 Shallowford Road Street, Chattanooga (Hamilton County). These beds are being requested from the 2011-2012 125 bed nursing home bed pool.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

NURSING HOME SERVICES

A. Need

1. **According to TCA 68-11-108, the need for nursing home beds shall be determined by applying the following population-based statistical methodology:**

$$\begin{aligned}\text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus}\end{aligned}$$

*****This bed need formula contained in Tennessee's Health Guidelines for Growth, Criteria and Standards for Certificate of Need, 2000 Edition was developed before the passage of The Long-term Care Community Choices Act of 2008. See page 7 of this staff summary for more detail.*

2. **The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.**

Based on the projected population for Hamilton County in 2014, the Tennessee Department of Health's Division of Health Statistics used the above formula to calculate a need of 2,544 nursing home beds for the applicant's declared service area, Hamilton County.

3. **The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.**

According to the Tennessee Department of Health's Division of Health Statistics, there currently are 1,659 licensed beds in the Hamilton County. Additionally there are 150 outstanding but implemented nursing home beds totaling to 1,809 beds. Subtracting the 1809 licensed and outstanding beds from 2,544 bed need results in a net nursing home bed need of 735 beds.

It appears the application meets this criterion.

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

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4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.

The applicant's proposed project will be located in Chattanooga, the population center of Hamilton County.

It appears the application meets this criterion.

5. The HSDA may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

Since the Net Nursing Home Bed Need for Hamilton County is 735, the applicant's request for thirty beds is not in excess of the nursing home bed need standard for the service area.

It appears this criterion does not apply to the proposed project.

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

As in 3.a., this criterion does not apply to the proposed project.

B. Occupancy and Size Standards:

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

The applicant projects that nursing home's occupancy rate for 30 beds will be 76.0% in Year One increasing to 96.7% in Year Two.

It appears the application is expected to meet this criterion.

SHALLOWFORD HEALTHCARE, LLC

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2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently noncomplying with quality assurance regulations shall be considered in determining the service areas, average occupancy rate.

In 2010, Hamilton County had 10 licensed nursing homes which had a licensed capacity of 50 beds or more. None of these facilities has attained an occupancy of 95%. Provisional data from the 2011 JAR also indicates that none of the ten nursing homes attained 95% occupancy.

It appears the application does not meet this criterion.

3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for the previous year.

This application is for a new 30 bed skilled nursing facility. This criterion does not apply.

4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The HSDA may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.

This application is for a new free-standing 30 bed skilled nursing facility.

The application meets this criterion.

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

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SUMMARY:

The applicant proposes to renovate an existing facility, owned and operated by the owner of the applicant that currently provides residential and non-residential mental health and alcohol and drug detoxification and rehabilitation treatment services. The applicant states that the facility was originally built as a 60-bed assisted living facility. The applicant states that no residential patient will be forced to leave the facility before the end of their respective scheduled treatment plans. Placement assistance will be provided to any patient or client who needs it.

The applicant was recently asked to explain why the alternative of converting a mental health residential treatment facility to a nursing home was selected. The applicant's response by email is as follows:

Focus of Tennessee operates with 48 licensed beds. The average annual occupancy has ranged from 31.3% in 2010 to 39.6% in 2012, which shows that the facility has been underutilized. Further, a significant number of patients are from outside the immediate southeast Tennessee area, including other states. Therefore, the facility owner believes more area residents will be served in a skilled nursing center than in a mental health/chemical dependency facility.

In addition to inadequate local demand for mental health services, skilled nursing services are the core business of the applicant as evidenced by its investment in and management of approximately 50 nursing and senior care facilities. The owner's present involvement with mental health treatment centers is very limited, with only 3 in-patient locations. Consequently, converting the Shallowford Road location to a skilled nursing facility better aligns the facility with the owner's other business interest.

The applicant has filed a second CON application, CN1207-032, for a thirty (30) bed nursing home requesting the beds from the 2012-2013 125 Nursing Home Bed Pool. The applicant's intent is to obtain approval for both applications so that the result will be the establishment of one 60 bed nursing home.

The applicant states that the nursing home will be a one floor facility containing approximately 38,000 gross square feet. According to the floor plan in the application the nursing home will consist of two 19 room/30 bed wings with a central core that will include dining activity, therapy gym, beauty/barber shop, kitchen, multi-purpose room, and administrative offices. Each 30 bed wing will have 8 private rooms and 11 semi-private rooms. The applicant did state in a

SHALLOWFORD HEALTHCARE, LLC

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November 14, 2012

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supplemental response willingness to consider operating a 30 bed nursing home in one half of the facility if one of the two applications was denied.

As noted earlier the 30 beds are being requested from the 2011-2012 125 bed nursing home bed pool. There are currently 54 beds available from this bed pool. According to the Department of Health Report there will be a nursing home bed need in 2014 of 2,544 beds, based on the 2000 Guidelines for Growth, Criteria and Standards for Nursing Homes. According to the Department of Health, Health Care Facilities, there are currently 1,659 licensed nursing home beds in Hamilton County. There are also 150 nursing home beds in outstanding CONs approved but yet unimplemented resulting in a total of 1,809 nursing home beds. Subtracting 1,809 existing nursing home beds from a projected bed need of 2,544 nursing home beds results in a net nursing home bed need of 735.

The 2000 Guidelines for Growth Occupancy and Size Standards for nursing homes also include a standard which states that "There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95%". Ten of the eleven nursing homes in Hamilton County have licensed beds in excess of 50. In 2010 and 2011, none of the ten nursing homes operated at an occupancy of 95% or greater. Four of the ten facilities operated between 90% and 95% occupancy in 2010. According to provisional data in the 2011 Joint Annual Reports for Nursing Homes one nursing home operated above 90% occupancy.

Shallowford Healthcare, LLC is a limited liability company, which is wholly owned by Byron DeFoor. The facility will be managed by Grace Healthcare, LLC, which is a limited liability company 98% owned by Byron DeFoor and 2% owned by Sunland Associates, LLC. The management fee expected to be charged by Grace Healthcare is 2.5% of net project income. The applicant states that Grace Healthcare, LLC currently manages 38 nursing homes with 20 of those being in Tennessee.

In addition to the numerical bed need the applicant states that:

- The proposed facility will be located in a high growth corridor in the eastern portion of Hamilton County. The applicant noted that there are several senior housing projects within a few miles of the applicant's site and that Life Care Center chose this section of the county to locate a 120 bed replacement facility. The applicant also states that nursing homes in this section of the county seem to have higher average occupancy rates than those facilities in other sections of the county.

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

PAGE 6

- The applicant also point out that during the last eight years there have been 1,000 nursing home beds available with 586 being approved, 138 being denied and 122 beds withdrawn. The applicant believes this is a clear indication that facilities are applying for beds only when it is felt the beds are needed, not just because the beds are available. The applicant states that this is the case with this particular application.

The Long-term Care Community Choices Act of 2008, TCA 71-5-1407 developed level of care criteria for new nursing facility admissions which ensure that the most intensive level of long-term care services is provided to persons with the highest level of need and for persons who meet a lesser level of care, i.e., who do not meet new nursing facility level-of-care criteria, but are "at risk" of institutional care, qualify for a more moderate package of Medicaid-reimbursed home and community-based waiver services up to a specified enrollment cap. The two components of level of care eligibility are medical necessity of care and need for inpatient care. As of July 1, 2012 TennCare instituted a new policy changing the requirements of being medically eligible for NF (non-skilled) nursing services by changing what was a requirement of having only one deficiency in activities of daily living (ADL) to be medically eligible to a weighted system that measures the level of deficiency across a defined group of ADLs.

The applicant was asked to discuss in a supplemental request for information the impact the CHOICES Act will have on nursing home utilization especially since data in the Joint Annual Reports indicate a steady decline in patient days since 2008. The applicant believes the CHOICES program will have more of an impact on NF (non-skilled) care which will delay individuals to enter nursing homes and be in need of skilled care at the time of admission. The applicant's full response can be found in Supplemental 4.

An email from a TennCare representative to Melanie Hill refutes the increased need for skilled care by stating *....."while it is likely that the acuity of Medicaid residents will increase over time, this does not equate to the need for more skilled beds, since by definition, a facility must be certified and willing to serve all Medicaid residents, regardless of their level of reimbursement."*

In fact, we know that not only has utilization of NF services under CHOICES declined, but authorization of persons for Level 2 reimbursement has also declined significantly, as improved monitoring and oversight by MCOs have helped us to better ensure when skilled and/or rehabilitative services are needed, such that the higher level of reimbursement is approved."

SHALLOWFORD HEALTHCARE, LLC

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The applicant's proposed service area is Hamilton County. According to the Division of Health Statistics, Tennessee Department of Health (TDOH), the population of Hamilton County is expected to increase by 0.7% from 318,632 residents in 2012 to 320,713 residents in 2014. The Hamilton County population cohort of age 65 and older presently accounts for approximately 15.6% of the total population compared to a state-wide average of 13.8% in CY 2012. The age 65 and older cohort of Hamilton County is expected to grow 5.8% by 2014, as compared to the statewide 6.1% growth rate over the two year period, 2012-2014.

The following tables will illustrate the historical utilization trends of nursing homes in Hamilton County:

Hamilton County Nursing Home Utilization Trends, 2009-2011

Nursing Home	2012 Lic.'d Beds	2009 Patient Days	2010 Patient Days	2011 Patient Days	'09- '11 % Change	2009 % Occ.	2010 % Occ.	2011 % Occ.
Alexian Village	114	36,047	36,546	37,307	+3.5%	86.6%	87.8%	89.7%
Consulate	127	42,227	43,626	43,626	+3.3%	91.1%	94.8%	94.1%
Life Care- Chattanooga(1)	NA	27,841	NA	NA	NA	49.9%	NA	NA
Life Care- Collegedale	124	42,588	42,374	34,289	-19.5%	94.1%	93.6%	75.8%
Life Care-East Ridge(3)	130	40,621	41,710	36,790	-9.4%	69.6%	71.4%	77.5%
Life Care- Hixson(2)	108	25,399	22,082	21,615	-14.9%	89.2%	77.6%	54.8%
Life Care-Red Bank	148	50,454	50,083	47,021	-6.8%	93.4%	94.0%	87.0%
NHC	207	69,385	67,963	65,723	-5.3%	91.8%	90.0%	87.0%
Siskin Subacute	29	8,839	9,238	9,189	+4.0%	83.5%	87.3%	86.8%
Soddy Daisy	120	42,241	37,130	36,761	-13.0%	96.4%	84.8%	83.9%
St. Barnabas	108	33,643	34,791	35,137	+4.4%	85.3%	88.3%	89.1%
Standifer Place(4)	444	143,319	146,871	147,242	+2.7%	82.8%	84.9%	85.1%
TOTAL	1659	562,604	532,414	514,700	-8.5%	83.7%	86.4%	83.5%

- (1) Life Care of Chattanooga was a 153 bed facility that closed in 2009. It will be replaced by outstanding CON CN1103-009, Life Care-Ooltewah, a 120 bed facility
- (2) Life Care-Hixson is a 108 bed replacement/relocation (CN806-038 and CN0904-016) of 78 bed Life Care Missionary Ridge
- (3) Reduced licensed beds from 160 to 130 in conjunction with adding 30 beds at Life Care-Hixson
- (4) Licensed for 474 beds prior to 2012.

Source: Joint Annual Reports, 209-2011, 2011 Provisional

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

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The table above illustrates that nursing home utilization in Hamilton County has been declining. Total patient days of nursing home services provided in 2009 was 562,604 which have declined 8.5% to 514,700 patient days in 2011. Of the eleven nursing homes currently in operation in Hamilton County, five experienced increases in utilization while the other six experienced some decline in utilization. Overall occupancy increased in 2010 mainly due to 153 beds going into inactive status. Occupancy in 2011 returned to 2009 levels of approximately 84%. Licensed nursing home beds available in 2009 were 1,842. Nursing home beds in 2011 reduced to 1,689. In 2012 nursing home beds are at 1,659; however there are 150 approved but yet to be implemented beds in Hamilton County.

As reported by the Department of Health Report and review of the Nursing Home Joint Annual Report, the Hamilton County nursing homes in 2010, had 303 Medicare certified beds and 1,154 dually certified beds for a total of 1,457 beds available to receive skilled nursing patients. The Hamilton County average daily census (ADC) for SNF Medicare patients was 315 patients. ADC for Skilled-Medicaid patients was 139, the ADC for Skilled Care patients being paid for by all other payors was 96. The total ADC for skilled nursing patients was 550. Of the 1457 Medicare skilled beds in Hamilton County, these beds were used approximately 38% of the time for skilled patients. The ADC for NF (non-skilled which includes Medicaid and non-certified) is 915 patients. Thus, the total ADC for the county's 1,689 nursing home beds was 1,465 patients.

The applicant initially reported 100% skilled utilization for the proposed project and would enter a transfer agreement for Medicaid patients requiring a lower level of care. In a request for supplemental information the applicant was informed that due to the Linton Court Order, a facility dually certified for Medicare/TennCare would be expected to provide services to TennCare patients requiring less than skilled nursing services. As noted on page 3 of the Department of Health report the Linton Court Order resulted in District Court instructing the State of Tennessee to submit a remedial plan that included a provision requiring Medicaid providers to certify all available licensed nursing home beds within their facilities and to admit residents on a first-come, first-serve basis regardless of their level of care. In fact in the same email from a TennCare representative to Melanie Hill noted on page 7 of this staff summary, the TennCare representative stated: *It is not the Linton Order, but rather Nursing Home Reform Law (OBRA 87) which eliminated the distinction between Intermediate and Skilled Care. Under the law, a facility is not permitted to accept only persons receiving Level 1 or Level 2 reimbursement; rather, a facility must be qualified and willing to meet the medical needs of all Medicaid residents to participate in the Medicaid program.*

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

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After several supplemental responses the applicant provided two scenarios: one where the applicant would serve both Medicare and Medicaid patients and one where the applicant would serve only Medicare skilled patients. The two scenarios are provided in the charts below:

Scenario 1: Includes Medicaid non-skilled utilization

Year	Licensed Beds	*Medicare certified Beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Year 1	30	30	9.3	2.3	2.0	9.2	22.8	80.0%
Year 2	30	30	12.0	3.0	2.0	12.0	29.0	96.7%

*Includes dually-certified beds

Scenario 2: Only Medicare Skilled Utilization

Year	Licensed Beds	Medicare certified Beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Year 1	30	30	18.6	0.0	2.0	0.0	20.6	68.7%
Year 2	30	30	26.0	0.0	2.0	0.0	28.0	93.4%

According to the charts above if the applicant remains dually certified for Medicare and Medicaid, the applicant projects that by the second year of operation the skilled average daily census for a 30-bed facility will be 17 while the non-skilled ADC will be 12. This results in an overall occupancy of 96.7%. If the applicant becomes only Medicare certified the applicant projects that by the second year of operation the skilled average daily census will be 28. This will result in an overall occupancy of 93.4%

Per the Projected Data Chart in the sixth supplemental response assuming dual certification, gross operating revenue on an occupancy rate of 80.0% is \$3,224,106 (\$387.61 per patient day) in Year One of the project, increasing by approximately 30.7% to \$4,216,590 on an occupancy rate of 96.7% in Year Two. The applicant projects a net operating loss of (\$795,010.80) in project Year One, and a net operating loss of (\$480,991.10) in Year Two. The applicant indicates it will apply for both Medicare and TennCare/Medicaid certification. Participation in the Medicare program during the first year of operation is anticipated to be \$2,338,146 (72.5% of total gross operating revenues), while participation in Medicaid is estimated to be \$754,200 (23.4% of total gross operating revenues). If

SHALLOWFORD HEALTHCARE, LLC

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the applicant facility was only Medicare certified, a projected net loss of (\$809,459.50) is forecasted for Year 1 improving to positive net income of \$106,957 in Year 2.

The applicant expects to contract with UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

Direct care nursing staff for the 30 bed nursing home in the first year of the project's opening will consist of a total of 13.0 full-time equivalent (FTE) employees, including 2.0 FTE registered nurses, 3.0 FTE licensed practical nurses, and 8.0 FTE certified nursing assistants. The applicant will contract for physical, occupational and speech therapy according to census and rehabilitation needs. The applicant will hire social worker staff, activities director staff, and other related positions. The applicant has not identified or selected a medical director. If approved, the applicant expects to hire a medical director prior to the licensure survey.

The total estimated project cost is \$4,631,397.25. The major costs are the fair market value of the property, (\$4,000,000) and renovation costs of 235,000. Other costs include equipment costs, architectural and engineering fees, and administrative costs.

The president of Community Trust & Banking Company provides a letter and documentation that the applicant has the funds available to fund the proposed project.

Shallowford Healthcare, LLC is a new entity and has no historical financial statements to report.

The applicant has submitted the required corporate and property documentation. Staff will have a copy of these documents available for member reference at the Agency meeting. Copies are also available for review at the Health Services and Development Agency office.

Should the Agency vote to approve this project, the CON would expire in two years.

SHALLOWFORD HEALTHCARE, LLC

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CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, denied or outstanding Certificates of Need for this applicant.

Pending Applications

Shallowford Healthcare, LLC, CN1207-032, has a pending application scheduled to be heard at the November 14, 2012 Agency meeting for the establishment of a thirty (30) bed nursing home subject to the 2012-2013 Nursing Home Bed Pool. This is the second of two applications, both for thirty skilled beds -the first application, CN1206-028 subject to the 2011-2012 Nursing Home Bed Pool. The applicant plans to eventually operate a sixty (60) bed nursing home. Estimated project cost is **\$4,631,397**.

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no other Letters of Intent, denied applications, or pending applications for other health care organizations in the service area proposing this type of service.

Outstanding Certificates of Need

Alexian Village Health and Rehabilitation Center, CN1110-042, has an outstanding Certificate of Need that will expire on May 1, 2014. The CON was approved at the March 28, 2012 Agency meeting for the replacement of an existing one hundred fourteen (114) nursing home bed facility on the campus of Alexian Village at 622 Alexian Way Signal Mountain (Hamilton County). Estimated project cost is **\$22,658,154.00**. *Project Status: Site work continues with daily blasting. This should conclude in October, 2012. Grading has been delayed by rain but is on track for the month of October, 2012. Additional site work includes the relocation of utilities. Water and gas have been relocated and the electrical service will be relocated in October, 2012. Review of engineer drawing is complete, site work for drainage to begin at the end of October.*

Erlanger North Hospital, CN1012-056A, has an outstanding Certificate of Need that will expire on April 1, 2014. The CON was approved at the March 23, 2011 Agency meeting for the establishment of a nursing home and conversion of thirty (30) acute care beds to thirty (30) skilled nursing beds. The additional

SHALLOWFORD HEALTHCARE, LLC

CN1206-028

November 14, 2012

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thirty (30) nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2010 to June 2011 state fiscal year period. Estimated project cost is **\$1,477,052.00**. *Project Status: Erlanger is proceeding with work associated with the implementation of CN1012-056. Replacement of the roof is completed and facility has received approval from the State Fire Marshal for installation/upgrade to the fire protection system. This work has also been bid and is ready to be awarded to contractor for installation. Facility also continues in discussion with an existing SNF provider about programmatic implementation and related operations of the skilled unit and expects to sign a Letter of Intent (LOI) with the provider in the next few weeks or less, while also anticipating discussion with HSDA in the near term. The proposed provider arrangement goes before the Erlanger Board Planning Committee on October 22, 2012. The facility expects to complete implementation of the CON within the time frame authorized.*

Chattanooga Medical Investors Limited Partnership, d/b/a Life Care Center of Ooltewah, CN1103-009A, has an outstanding Certificate of Need that will expire on September 1, 2013. The CON was approved at the July 27, 2011 Agency meeting for the relocation and replacement of a nursing home from 455 North Highland Park Ave., Chattanooga (Hamilton County), TN to a yet-to-be assigned address located on the northeast corner of Mountain View Road and Snow Hill Road, Ooltewah (Hamilton County), TN. The licensed beds will decrease from 153 to 120. Estimated project cost is **\$20,990,000**. *Project Status: Construction on Life Care Center of Ooltewah has progressed on schedule and within budget. The building should be substantially complete in early December 2012. Installation of the furniture, fixtures and equipment is scheduled to be complete by the end of December.*

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
10/29/2012



2012 JUN 7 PM 2 05

LETTER OF INTENT
TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper
(Name of Newspaper)

of general circulation in Hamilton County, Tennessee, on or before June 10, 2012 for one day.
(County) (Month / day) (Year)

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, intends to file an application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,526,161.00, including filing fee.

The anticipated date of filing the application is: June 15, 2012.

The contact person for this project is E. Graham Baker, Jr. Attorney
(Contact Name) (Title)

who may be reached at: his office at 2021 Richard Jones Road, Suite 350
(Company Name) (Address)

Nashville TN 37215 615/370-3380
(City) (State) (Zip Code) (Area Code / Phone Number)

E. Graham Baker, Jr. 06/07/2012 graham@grahambaker.net
(Signature) (Date) (E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the

NURSING HOME BED POOL STATS

July 1, 2011 – June 30, 2012

125 BED POOL

NH BEDS APPROVED	68 NURSING HOME BEDS
NH BEDS PENDING	30 NURSING HOME BEDS
SWING BEDS APPROVED	0 SWING BEDS
SWING BEDS PENDING	0 SWING BEDS
TOTAL BEDS DENIED	24 BEDS
<u>SUBTOTAL-- BEDS REQUESTED</u>	<u>122 BEDS</u>
TOTAL BEDS AVAILABLE FROM POOL	57 BEDS
(TOTAL PENDING BEDS)	(54 BEDS)

COUNTY	PROJECT NUMBER	FACILITY	PROJECT DISPOSITION	MEETING DATE	DESCRIPTION
Knox	CN1111-049	NHC HealthCare, Farragut	APPROVED	2/22/2012	The addition of ten (10) Medicare SNF nursing home beds to the currently operating ninety (90) bed nursing home for a total of 100 nursing home beds.
Davidson	CN1202-010	McKendree Village	APPROVED	5/23/2012	The addition of thirty (30) Medicare skilled nursing home beds to the 150 nursing home beds it currently operates. If approved McKendree Village will operate a 180 bed nursing home that will be dually certified for Medicare and Medicaid participation.
Shelby	CN1202-011	Collins Chapel Health & Rehabilitation	APPROVED	6/27/2012	The establishment of a nursing home with twenty-eight (28) Medicare skilled nursing home beds. Collins Chapel Connectional Hospital is a non-profit religious corporation affiliated with and a ministry of the Christian Methodist Episcopal Church. It proposes to establish this nursing home to provide skilled nursing facility services.
Wilson	CN1204-016	The Pavilion-THS	DENIED	9/26/2012	To build an addition to the existing sixty (60) licensed bed nursing home; and add twenty-four (24) skilled nursing beds dually certified for Medicare and Medicaid. The expanded facility will have a total of eighty-four (84) licensed beds. The facility currently provides care for private-pay, Medicare Level II, and Medicaid Level I and II residents. There will be no change to the services currently provided.

NURSING HOME BED POOL STATS

Updated 10/2/2012

Page 1 of 2

Hamilton	CN1206-028	Shallowford Healthcare, LLC	PENDING	11/14/2012	The establishment of a thirty (30)* skilled bed nursing home (subject to the 2011-2012 Nursing Home Bed Pool). This is the first of two (2) applications, both for thirty (30)* skilled nursing home beds--the second application, CN1207-032 (subject to the 2012-2013 Nursing Home Bed Pool). The applicant plans to eventually operate a sixty (60) bed facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued.
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Michael D. Brent
Partner
Direct: (615) 252-2361
mbrent@babco.com

2012 OCT 30 AM 10:08

October 29, 2012

VIA email and US Mail

Ms. Melanie Hill
Tennessee Health Services & Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Opposition to Shallowford Healthcare, LLC
(CN1206-028 and CN1207-032)

Dear Melanie:

On behalf of LP Cleveland, LLC, d/b/a Signature Healthcare of Cleveland, we respectfully oppose the above referenced requests of Shallowford Healthcare, LLC for the approval of two new thirty bed nursing homes, which we understand are proposed to eventually be combined to operate as a single sixty bed facility. We, along with other representatives of Signature Healthcare, intend to be present at the Agency meeting on November 14, 2012 to further express our opposition, as we do not believe the applications meet the applicable requirements as to need, orderly development and other factors.

If you have any questions or need anything further, please do not hesitate to contact me.

Very truly yours,

BRADLEY ARANT BOULT CUMMINGS, LLP



Michael D. Brent

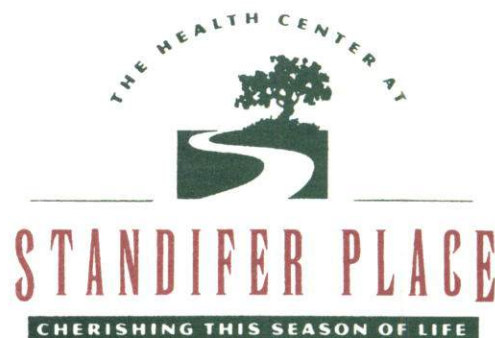
MDB/

CC: Graham Baker, Esq. (via eMail)
Lisa Stephenson, Esq. (via eMail)

7/2991509.2

November 8, 2012

Ms. Melanie Hill, Executive Director
Health Services and Development Agency
Andrew Jackson State Office Building
500 Deaderick Street, Suite 850
Nashville, TN 37243



RE: Shallowford Healthcare, LLC, CN1206-028 & CN1207-032 - **OPPOSITION LETTER**

Dear Ms. Hill:

We are aware that the above mentioned certificate of need projects are set to appear before the Health Service and Development Agency on November 14, 2012. **Because the aforementioned applications will duplicate existing services and adversely impact the existing healthcare delivery system, I am writing this letter in opposition to the project pursuant to T.C.A., Section 68-11-1609(g)(1).** We respectfully request that the Agency deny both referenced Shallowford Healthcare requests to add a total of 60 new nursing home beds to an already underutilized county and/or service area.

The Health Center of Standifer Place is a 444 bed nursing center located at 2626 Walker Rd, Chattanooga, TN 37421. The overall licensed occupancy in Hamilton County, based on the most recent published Joint Annual Report for 2010, was 86.5%. In fact, not one facility in Hamilton County reported an occupancy level of 95% or better, and my center actually delicensed 30 beds since that data was reported. In addition, Life Care Center of Chattanooga has a 120 bed center under development but not yet in service. If one considers the fact that the market will have these additional beds to fill in addition to the existing occupancy rate being below 90%, the granting of another 60 beds at this time seem premature. Consequently, the average county occupancy would seem to be most important when considering the orderly development of health care for the area, not an individual facility based need request. The Tennessee nursing home bed need formula for Hamilton County for the year 2014 shows the county to need as many as 276 additional beds according to the bed need formula. The occupancy rates at existing centers tell a different story.

Approval of additional beds without need will drive occupancy rates down further in the county, and certainly disrupt further the orderly development of health care in Hamilton County and calling into question the health care balance within the area.

In summary, we oppose the referenced CONs and ask that they not be approved for additional beds. If you need any additional information please do not hesitate to call me.

Sincerely,

Mature Care of Standifer Place, LLC d/b/a The Health Center of Standifer Place

John Strawn, Administrator

Cc: E. Graham Baker, Jr., Esquire
7000 Executive Center Drive, Suite 207

**2626 WALKER ROAD
CHATTANOOGA, TN 37421
423-490-1599
FAX 423-490-2161**



November 29, 2012

Chattanooga Bone and
Joint Surgeons, P.C.

Specialists in Orthopaedic
Surgery and Sports
Medicine

Martin H. Redish, MD
John P. Nash, MD
David Bruce, MD
Peter J. Lund, MD
David M. Lowry, DO
Ryan Gilliland, PA-C

In Memoriam
Bruce Short, MD

Main Office & Mailing
Address:

1809 Gunbarrel Road
Suite 101
Chattanooga, TN 37421

2205 McCallie Avenue
Suite 102
Chattanooga, TN 37404

Phone
423-893-9020

Billing
423-648-0250

Parkridge
423-305-7791

Fax
423-893-9040

cbjsonline.com

Grace Healthcare
Attn: Cyndi Metheny
7201 Shallowford Road
Chattanooga, TN 37421

To Whom It May Concern:

It has come to my attention that Grace Healthcare is trying to establish a rehab facility in Chattanooga for short term intensive rehab. My opinion has been sought as to the need for this in the community.

As a healthcare provider in orthopaedic surgery in Chattanooga I find it quite often very difficult to get short term skilled rehab available for our patients and there is often obstruction because of lack of bed availability. I think it is terrific that Grace Healthcare is working to acquire property and hopefully supply us with more bed space for elderly patients who have acute need for intensive short term care.

I look forward to having them in this community and would advise that in my opinion there is a necessary role for this in this community. If there are any questions or concerns I will be happy to answer them.

Sincerely,

W. David Bruce, MD

DB:AK

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF HEALTH STATISTICS**

615-741-1954

2012 OCT 22 PM 2:15

DATE: September 28, 2012

APPLICANT: Shallowford Healthcare
7201 Shallowford Road
Chattanooga, Tennessee 37421

CONTACT PERSON: E. Graham Baker, Jr. Esquire
7000 Executive Center Drive, Suite 207
Brentwood, Tennessee 37027

COST: \$4,526,161

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Health Statistics, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's Health: Guidelines for Growth, 2000 Edition*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Shallowford Healthcare, LLC located in Chattanooga (Hamilton County), Tennessee, seeks Certificate of Need (CON) approval for the establishment of a thirty (30) skilled bed nursing home containing 22 semi-private and 8 private rooms. The requested beds are subject to the FY 2011-2012 for nursing home beds authorized by T.C.A. § 68-11-1662. Due to the Litton Rule, all beds will be certified for both Medicare and Medicaid. This application is the first of two separate CON applications, each for 30 skilled beds. The applicant will file a second (CN1207-032) Certificate of Need (CON) for 30 skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1662, with the applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the applicant will serve Medicare, Medicaid, commercially insured and private pay patients.

The proposed project is to renovate an existing health care facility, currently utilized as a chemical dependency and eating disorder treatment facility. The facility is an approximately 38,000 square foot building built in 1995 and is already a health care facility, so relatively little modification needs to be made in order to convert the facility into a nursing home. The cost per bed for the project is total cost of \$121.61 per square foot and only \$235,000 of renovation costs (construction cost of \$6.19 per square foot), significantly lower than the average of the most recent applications heard by HSDA. The applicant reports the costs are high since all fixed costs have to be loaded in the first application. Since the second application will be extremely inexpensive (basically the cost of furnishings for 30 beds), the actual construction and total cost per bed is closer to almost half the numbers reported above, assuming all 60 beds are approved.

Shallowford Healthcare, LLC is 100% owned by Byron DeFoor and will be managed by Grace Healthcare, LLC, who currently manages 38 nursing homes including 20 in Tennessee. The applicant lists the 20 Tennessee facilities on page 4 of the application.

The total estimated project cost is \$4,526,161 and will be financed through cash reserves of the owner, Byron DeFoor, as attested to in a letter from Community Trust & Banking Company in Supplemental 1, Attachment C EF.2. The applicant's bank statement from Farmers Bank states the applicant has sufficient funds that are set aside and committed to this project.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition*.

NEED:

The applicant's proposed service area is Hamilton County. The following charts illustrates the 2012 and 2016 total population projections and the age 65 and older population projections for Hamilton County.

Service Area Total Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Hamilton	318,632	322,740	1.3%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

Service Area Age 65 and Older Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Hamilton	49,670	55,524	11.8%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

Hamilton County Nursing Home Utilization 2010

Nursing Home	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicaid	NF-ADC (Medicaid/Level I Only)	SNF Medicare Level II ADC	NF-ADC	Licensed Occupancy
Alexian Health Care Center	114	114	0	0	0	15	85	87.8%
Life Care Center of Collegedale	124	0	124	0	38	32	82	93.6%
Life Care Center of East Ridge	160	160	0	0	0	81	26	71.4%
Life Care Center of Missionary Ridge Hixon	78	0	78	0	49	9	50	77.8%
Life Care Center of Red Bank	148	0	148	0	75	36	100	94.0%
NHC Healthcare Chattanooga	207	0	145	62	33	22	65	90.0%
Siskin Hospital	29	29	0	0	0	24	0	87.3%
Soddy Daisy Healthcare	120	0	120	0	32	26	75	84.8%
St. Barnabas Nursing Home	108	0	108	0	45	24	65	88.3%
The Health Center of Standifer Place	474	0	304	170				84.9%
Consulate Health Care	127	0	127	0	0	16	100	94.8%
Total	1,689	303	1,154	232	272	285	648	86.5%

Source: *Joint Annual Report of Nursing Homes 2010*, Tennessee Department of Health, Division of Health Statistics

*Life Care Center of Chattanooga was open 252 days.

**Life Care Center of Missionary Ridge changed their name to Life Care Center of Hixson, 1/27/11.

Legend

Licensed Beds-Total beds in a nursing home licensed by the Tennessee Department of Health.
SNF Beds, Medicare Skilled Nursing or TennCare/Level II beds where the payor source is either Medicare or Skilled Medicaid.

SNF/NF Beds, Dually Certified-Medicare Skilled Nursing or TennCare/Level II and Intermediate Care or TennCare/Level I beds where the payor source is either Medicare or Medicaid.

NF Beds-Medicaid-Intermediate Care or TennCare/Level I beds where the payor source is Medicaid

Licensed Only Beds Non Certified-Skilled Nursing and Intermediate Care beds. Payor source is private pay.

SNF Medicare/Level II ADC-Average Daily Census for skilled patients whose payor source is Medicare. Average Daily Census is calculated by taking Medicare skilled/Level II patient days and dividing it by the number of days in a year (365) resulting in an average daily census.

NF-ADC-Average Daily Census for Level I/Intermediate Care patients.

Facility Occupancy-Occupancy rate for the total nursing home facility. Occupancy Rate is calculated by taking total patient days and dividing it by the number of beds available in a year.

Source: The definitions and presentation are done in accordance with Health Services and Development Agency Members and Staff requirements, October 2006.

Chart Summary

There are 1,689 licensed beds in Hamilton County, of which 303 beds are SNF Beds-Medicare, 1,154 beds are SNF-NF Beds-Dually Certified, and 232 beds are NF Beds-Medicaid. The average daily census (ADC) of NF-Medicaid/Level I Only beds is 272, the ADC for SNF Medicare Level II beds is 285, and the ADC for NF Beds is 648. The 2010 average licensed occupancy is 86.5% for the Hamilton County agencies.

Note to Agency Members: Of interest, one possible explanation for the occupancy of intermediate care patients in beds certified for skilled care is the legal precedent established in the Linton Ruling, a Tennessee lawsuit settled in 1990. HSDA deputy legal counsel provides a summary of the Linton Ruling as follows: "Mildred Lea Linton, a nursing home resident, represented a class of plaintiffs who alleged that Tennessee's nursing home bed certification policy, in which fewer than all beds within a particular wing or floor could be available for Medicaid recipients, violated the Medicaid Act. Ms. Linton's nursing home apportioned only 40 of its 87 intermediate care facility beds as Medicaid beds. When Medicaid officials reduced Ms. Linton's care eligibility from skilled to intermediate, Ms. Linton's nursing home informed her that it was decertifying her Medicaid bed and would not likely have available any Medicaid beds. The District Court found that Tennessee's "limited bed policy" violated the Medicaid Act, and the state was instructed to submit a remedial plan, which, among other provisions, required Medicaid providers to certify all available, licensed nursing home beds within their facilities and to admit residents on a first-come, first-serve basis."

The applicant plans to establish a thirty (30) skilled bed nursing home containing 11 semi-private and 8 private rooms. The semi-private rooms will not be the typical semi-private nursing facility beds; these rooms will be portioned. The occupants will share a bathroom that includes a shower. Additionally, there is a vacant piece of land next to the facility that could be used for future expansion. It was determined during the facility's operation, that additional private rooms were necessary.

In Supplemental 1, the applicant states they intend to provide only skilled nursing care, and will

enter into a transfer agreement with a Level I Medicaid Provider. At the point a resident no longer requires NF care; arrangements will be made to transfer the Level I resident to a Level SNF. There is much discussion in Supplemental 2 and 3 regarding whether or not this policy would be in direct conflict with the Litton ruling. The applicant's attorney discussed the Litton issue with THCA (nursing home trade association), TennCare, and TDOH licensure. All parties agreed that the Litton ruling creates a complicated set of circumstances that needs to be clarified, and there currently exists no clear answer. However, it was decided the safer route, until the issue is resolved, could be to continue to provide NF care to these patients.

In Supplemental 3, the applicant states this may not be as much of a problem as originally anticipated by HSDA staff. The applicant's marketing strategy for the entire facility is to target short-term rehab residents who intend to, and have a high potential of, returning home. All nursing facilities conduct pre-admission evaluations (PAEs). As a consequence, a PAE of patients referred to the applicant would be done to determine potential and overall ability to return home. Most Medicare residents reach their full rehab potential and return home before their 100 days of available skilled care expires. The applicant's PAEs of potential residents prior to admission to the facility will result in a high majority of residents returning home. Additionally, the applicant will be admitting a significant number of residents who may have Medicaid as a secondary payer, but most of the residents will be discharged to their respective homes or to a community-based program before exhausting their Medicare benefits. The applicant's clinical programs will be focused toward rehabilitation.

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July of 2011 for a replacement 120 bed nursing home. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The calculated bed need for Hamilton County is 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

The applicant's facility will be located in the eastern portion of Hamilton County. This is an area where nursing home beds are highly utilized. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% occupancy in 2008, 2009, and 2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1%, and 93.6% occupancy for the same three years, respectively.

The Hamilton County age 65+ population is projected to increase about 5.8% in 2014. The 2016 age 65+ is projected to increase by 11.8%. The elderly population in Hamilton County is growing at a much faster rate than the general population and the demand for nursing home beds will increase.

In addition, the applicant provides a chart from the HSDA web site of the Statutory Nursing Home Bed Pool utilization for the 8 previous years. While 1,000 beds have been authorized (8 years X 125 beds), only 586 beds have been approved, 138 denied, and 122 withdrawn from consideration. At the time of this application, 28 beds from the FY2011-2012 pool are pending and have yet to be heard by HSDA. Another 24 beds have been submitted but not deemed complete. Even if all 52 beds pending were approved, there remains ample beds from the pool to approve this project.

The project should not impact the existing facilities in the county as presently presented. The requested 30 beds would result in an increase of 1.6% of the total beds in the county. The facilities currently providing quality care would not be affected by such a small increase in the proposed project. The overall need in Hamilton County greatly exceeds the existing beds and if this project is approved will not significantly impact the total bed need. By converting an existing health care facility, the transition to a nursing home becomes very financially feasible. The

proposed site is also located in a high growth corridor of the county, with nursing homes located in this area having higher occupancy rates are than the average.

TENNCARE/MEDICARE ACCESS:

In Supplemental 2, the applicant indicates they will contract with United Healthcare Community Plan, BlueCare, and TennCare Select MCO plans.

TennCare Enrollees in the Proposed Service Area

County	2012 Population	TennCare Enrollees	% of Total Population
Hamilton	318,632	55,593	17.4%

Source: *Tennessee Population Projections 2000-2020*, February 2008 Revision Tennessee Department of Health, Division of Health Statistics and *Tennessee TennCare Management Information System, Recipient Enrollment*, Bureau of TennCare

In Supplemental 1, it is indicated that Medicare revenues will be 72.5% of gross revenues, Medicaid Level 1 will be 18.8% of gross revenues, and Medicaid Level II will be 4.6% of gross revenues in year one for 30 beds.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

In the Project Costs Chart for 30 beds, the total estimated project cost is \$4,526,161, which includes \$25,000 for architectural and engineering fees; \$35,000 for legal, administrative, and consultant fees; \$50,000 for construction costs; \$171,000 for moveable equipment; \$4,000,000 for facility, and \$10,161 for CON filing fees.

There is no Historical Data Chart. This project is to establish a new nursing facility.

In the Projected Data Chart for the 30-bed project including 40% NF Medicaid residents, located in Supplemental 6, the applicant projects 8,318 patient days in year one and 10,587 patient days in year two with gross operating revenues of \$2,224,106 and \$4,216,590 each year, respectively. Contractual adjustment, provisions for charity care and bad debt reduced net operating revenues to \$2,221,968.64 and \$2,835,683.10 each year. The applicant projects \$56,307.58 and \$71,419.15 in management fees to affiliates in year one and two respectively. The applicant projects a net operating (loss) of (\$795,010.80 in year one and (\$480,991.10) in year two of the project.

In the Projected Data Chart for the 60-bed unit including 40% NF Medicaid residents, located in Supplemental 6 the applicant projects 16,539 patient days in year one and 20,807 patient days in year two with gross operating revenues of \$6,673,279.50 and \$8,396,122.50 each year respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$4,529,536.70 and \$5,698,038.59 each year. The applicant projects \$114,072.58 and \$143,500.48 in management fees to affiliates in each year, respectively. The applicant projects a net operating income of \$49,773.09 in year one and \$452,097.94 in year two of the project.

In the Projected Data Chart for 30 beds with no Medicaid residents located in Supplemental 6, the applicant projects 7,522 patient days in year one and 10,222 patient days in year two with gross operating revenues of \$4,806,675 and \$6,671,205 each year, respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$2,620,026.63 and \$4,084,203.98 each year. The applicant projects management fees to affiliates of \$66,101.50 and \$102,939 each year, respectively. The applicant projects a net operating income/(loss) of (\$809,459.50) in year one and \$106,957.98 in year two.

In the Projected Data Chart for 60 beds with no Medicaid residents located in Supplemental 6, the applicant projects 14,912 patient days in year one and 18,982 patient days in year two with gross operating revenues of \$9,342,090 and \$12,568,185 each year, respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$5,109,649.55 and \$6,821,069.08 each year. The applicant projects management fees to affiliates

of \$138,828 and \$194,910 each year, respectively. The applicant projects a net operating income/(loss) of (\$116,161.84) in year one and \$549,627.43 in year two.

In Supplemental 5, the applicant projects a first year average gross charge for 40% Medicaid NF residents of \$387.70 per day, with an average deduction of \$120.51, resulting in an average net charge of \$267.19 per day. The applicant projects a first year average gross charge for without Medicaid NF residents of \$707.91 per day, with an average deduction of \$322.04, resulting in an average net charge of \$385.87 per day. The applicant compared charges with other service area facilities in a chart located in Supplemental 5, page 42-R.

The Applicant owner of this facility has been in the nursing home business for many years. The management company's majority owner is also the Applicant owner, and the management company manages 38 nursing homes, 20 in Tennessee. In addition, the Applicant owner is also the majority owner of the property owner. This application represents many years of successful provision of long term care in Tennessee. The owner felt this was the best alternative to provide needed skilled care in Hamilton County.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

The applicant, through its management company, will continue existing relationships with facilities in the area. Transfer agreements will be negotiated with acute care facilities.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

The applicant anticipated staffing pattern for 30 beds is anticipated to be 2.0 FTE registered nurses, 3.0 FTE licensed practical nurses, and 8.0 FTE certified nurses aides. For 60 beds, the anticipated staffing would be 4.0 FTE registered nurses, 6.0 FTE licensed practical nurses, and 16.0 FTE certified nurses aides. Shallowford will contract with a related party therapy company who will staff therapists according to the census and rehabilitation needs. Shallowford will hire a social worker, activities director and other related positions.

The applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

The applicant will seek licensure from the Tennessee Department of Health, Board for Licensing Healthcare Facilities and certification from Medicare and Medicaid.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition*.

NURSING HOME SERVICES

Public Chapter No. 1112, Senate Bill No. 2463, which passed during the 1998 legislative session, amended and changed the code sections establishing the bed need formula that the Health Facilities Commission must follow when granting certificates of need for nursing home beds in Tennessee. During a fiscal year (July 1-June 30), the Commission shall issue no more than the designated number of Medicare skilled nursing facility beds for applicants filing for a certificate of need. The number of Medicare skilled nursing facility beds issued shall not exceed the allocated number of beds for each applicant. The applicant must also specify in the application the skilled services to be provided and how the applicant intends to provide such services.

A. Need

1. According to TCA 68-11-108, the need for nursing home beds shall be determined by applying the following population-based statistical methodology:

County bed need = .0005 x pop. 65 and under, plus
.0120 x pop. 65-74, plus
.0600 x pop. 75-84, plus
.1500 x pop. 85, plus

Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The Division of Policy, Planning, and Assessment calculated the bed need for Hamilton Count to be 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.

The Division of Policy, Planning, and Assessment used the 2012 population projected two years into the future. The calculated bed need for Hamilton Count is 2,544 beds in 2014. Therefore, there is a need for 735 beds.

3. The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The Division of Policy, Planning, and Assessment calculated the bed need for Hamilton Count to be 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.

The applicant's proposed service area is Hamilton County. The following charts illustrate the 2012 and 2016 total population projections and the age 65 and older population projections for Hamilton County.

Service Area Total Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
<i>Hamilton</i>	<i>318,632</i>	<i>322,740</i>	<i>1.3%</i>

Source: Tennessee Population Projections 2000-2020, February 2008 Revision, Tennessee Department of Health, Division of Health Statistics

Service Area Age 65 and Older Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
<i>Hamilton</i>	<i>49,670</i>	<i>55,524</i>	<i>11.8%</i>

Source: Tennessee Population Projections 2000-2020, February 2008 Revision, Tennessee Department of Health, Division of Health Statistics

5. The Health Facilities Commission may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July of 2011 for a replacement 120 bed nursing home. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds.

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

The applicant's facility will be located in the eastern portion of Hamilton County. This is an area where nursing home beds are highly utilized. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% occupancy in 2008, 2009, and 2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1%, and 93.6% occupancy for the same three years, respectively. The remaining 9 facilities operated at an average of 85.5% over the same three years.

Hamilton County Nursing Home Utilization 2010

Nursing Home	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicaid	NF-ADC (Medicaid/Level I Only)	SNF Medicare Level II ADC	NF-ADC	Licensed Occupancy
Alexian Health Care Center	114	114	0	0	0	15	85	87.8%
Life Care Center of Collegedale	124	0	124	0	38	32	82	93.6%
Life Care Center of East Ridge	160	160	0	0	0	81	26	71.4%
Life Care Center of Missionary Ridge Hixon	78	0	78	0	49	9	50	77.8%
Life Care Center of Red Bank	148	0	148	0	75	36	100	94.0%
NHC Healthcare Chattanooga	207	0	145	62	33	22	65	90.0%
Siskin Hospital	29	29	0	0	0	24	0	87.3%
Soddy Daisy Healthcare	120	0	120	0	32	26	75	84.8%
St. Barnabas Nursing Home	108	0	108	0	45	24	65	88.3%
The Health Center of Standifer	474	0	304	170				84.9%

Place								
Consulate Health Care	127	0	127	0	0	16	100	94.8%
Total	1,689	303	1,154	232	272	285	648	86.5%

Source: *Joint Annual Report of Nursing Homes 2010*, Tennessee Department of Health, Division of Health Statistics

*Life Care Center of Chattanooga was open 252 days.

**Life Care Center of Missionary Ridge changed their name to Life Care Center of Hixson, 1/27/11.

B. Occupancy and Size Standards:

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

The applicant expects to exceed this guideline.

2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently noncomplying with quality assurance regulations shall be considered in determining the service areas, average occupancy rate.

Only four facilities operated at or above 90% in 2010. See utilization chart above.

3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for the previous year.

This criterion is not applicable, as this is a new facility.

4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The Health Facilities Commission may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.

The applicant complies with this criterion.